S. HRG. 98-521

TO ESTABLISH A FEDERAL COST-SHARING POLICY FOR THE CONSTRUCTION AND MAINTENANCE OF DEEP DRAFT PORTS

HEARING

BEFORE THE

SUBCOMMITTEE ON WATER RESOURCES

OF THE

COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

SEPTEMBER 24, 1983—PORTSMOUTH, N.H.

Printed for the use of the
Committee on Environment and Public Works

U.S. GOVERNMENT PRINTING OFFICE
29-226 O WASHINGTON : 1984

S321-10

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TO ESTABLISH A FEDERAL COST-SHARING POLICY FOR THE CONSTRUCTION AND MAINTENANCE OF DEEP DRAFT PORTS

SATURDAY, SEPTEMBER 24, 1983

U.S. SENATE,
COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS,
SUBCOMMITTEE ON WATER RESOURCES,
Portsmouth, N.H.

The committee met at 9 a.m., in the city council chambers, city hall, Portsmouth, N.H., Hon. Gordon J. Humphrey presiding.

OPENING STATEMENT OF HON. GORDON J. HUMPHREY, U.S. SENATOR FROM THE STATE OF NEW HAMPSHIRE

Senator HUMPHREY. Let me ask that our first panel come up to the witness table; George Smith, Robert Elder, Rino Moriconi, Jean Neary, and William Torpey.

Mr. TORPEY. Senator, Jean Neary will not be here today, he's detained in New York.

Senator HUMPHREY. All right. Good morning. We appreciate your coming today, giving up this fine Saturday weather, it's a fine autumn day, this beautiful Saturday.

The Subcommittee on Water Resources will receive testimony this morning on legislation that proposes to establish a new Federal cost-sharing policy for the construction and maintenance of deep-draft ports. This legislation is vital to Portsmouth, to New England, and to the Nation as a whole, because without it there probably would be no new authorizations for deep-draft harbor improvements.

The future safety and economic viability of such ports as Portsmouth depends on passage of new deep-draft harbor dredging legislation.

We are here in Portsmouth in order to hear firsthand whether there are any unique conditions faced by New England ports which should be considered in determining overall national policy. Our expert witnesses today will address, among other things, the problem of diversion of American cargo to Canadian ports. Our understanding is that they are concerned that proposed user fees could exacerbate an already difficult situation and impair the ability of New England ports to compete with Canadian ports.

It appears that the tendency in Washington is to largely dismiss these concerns, but I am genuinely concerned that this is an issue to be taken seriously and I'm anxious to hear the views of our wit-

nesses on the nature of the problem and how they would approach it.

There are currently two port bills pending before our sucommittee, one bill that's S. 865 includes a system of ad valorem taxes for recovery of operation and maintenance expenses as well as a tiered program of local cost sharing for new construction.

The other bill, S. 970, would institute user fees based on tonnage and require local cost sharing for new construction projects. These bills will serve as the basic guides when the subcommittee sits down next Thursday, September 30, to begin forging a compromise, and, as I believe all of our witnesses today recognize, there may have to be some compromises. Economically our fee dictates that continuation of water resources projects may require a broader funding base. Seven years have passed since we last authorized any major water resources projects. Although attempts have been certainly made, there is a log jam that may not be broken unless we find a way to ease the overall burden on the Federal Treasury through such means as requiring local cost sharing for new construction or instituting user fees to help with the operation and maintenance costs. These user fees could be based on either the value or tonnage of cargo. I hope our witnesses today will have some thoughts on this question.

Within the Congress and the administration, there is a strong movement to relieve some of the Federal burden in paying for the maintenance and construction of our Nation's ports. Resolving this issue will be a difficult task, but the chairman of our subcommittee, Senator Abdnor, and I are committed to moving a bill and insuring that new projects are authorized.

The Subcommittee on Water Resources has already heard 1½ days of testimony on this issue and I believe our hearing today will prove a valuable addition to our understanding of the complexities involved.

We will also hear testimony this morning from the Corps of Engineers and the harbor pilot on the proposed Portsmouth Harbor improvement project. This project is vital to the region and has been approved by the New England Division of Corps of Engineers and is nearing completion of final corps approval in Washington.

It's my intention to offer the authorization of this project as an amendment to our committee bill and it will be important to have detailed information about this project on the committee record. Incidentally, this is not to be confused, and I know that the port authorities are aware of this, but for the information of others, this improving project is not to be confused with routine dredging that is to begin, I believe, in March; is that right, George, March of next year?

Mr. SMITH. Right.

Senator Humphrey. At this point, I want to welcome our witnesses and especially thank them in advance for being with us on this Saturday morning. The depth of your commitment to the future of New England ports and our maritime industry is evidenced by your presence and I look forward to hearing your testimony.

Our first witness this morning is Mr. George Smith, director of the New Hampshire State Port Authority. I'm particularly grateful

to you, George, for your assistance and cooperation in setting up this hearing. George has done a great deal of work and a tremendous job of revitalizing Portsmouth, N.H., and it is a great pleasure to have him and each of our witnesses here this morning.

George, will you lead off with your testimony?

STATEMENT OF GEORGE E. SMITH, JR., PORT DIRECTOR, NEW HAMPSHIRE STATE PORT AUTHORITY

Mr. SMITH. First off, Senator, I'd like to thank you and your committee for making it possible to have this hearing in Portsmouth. The fact that we've been able to bring people from all over New England to attend this meeting is indicative of the kinds of concerns we have as a port community. Welcome, and thank you.

I have some brief remarks that I've reduced to writing, but I do not have a hand out, particularly because I did not have a secretary yesterday that could type it, but I'll make the information available to the committee at the end of the meeting.

The New Hampshire State Port Authority is concerned about the possible negative impact that a port user fee would have on the port of Portsmouth. While most of the user fees proposals being considered in Washington represent a sincere attempt to find an equitable way to assess port user fees, in my judgment they're all too simplistic in their scope to be able to satisfy the requirements of the present administration while protecting the port interests from further erosive regulation and additional costs. This fact becomes patently clear when one realizes that there is a lack of consensus at all levels of the private and public sectors as to the user fees—as to how the user fees are to be assessed.

New England is particularly vulnerable from the point of view of our changing economic climate and the present strength of the dollar. The North Atlantic range, of which New England is an integral part, is also suffering from a surplus of available shipping which results in regressive competitive strategies. The problem is further complicated by the increasing amount of traffic that is being transshipped via Canadian ports to markets normally served by New England ports. This applies to imports as well as exports. While nationally the Canadian's divergers are up 9 percent in 1981, according to a maritime administration study, exports transshipped via Canada from the St. Albans and Portland customs district increased 17 percent for the same period. Imports via Canada, through the same customs district increased 37 percent. If this trend continues, it will spell the demise of New England ports as we know them today. Any increase in shipping costs, however, minimal, will hasten this demise. If we are determined to reverse this trend, then we can do so only with the support and the understanding of the Federal Government.

If user fees are to become a reality, I would strongly recommend that consideration be given to the uniqueness of our geographic location in relation to our most serious competition, the ports of Montreal, St. Johns, and Halifax, with the costs of handling cargo are kindly substantially less than ports in the Northeast. The average labor cost per container in the North Atlantic range is $38.96,

compared with Montreal at $16.41, and Halifax at $12.14. This information comes from a MaRad report, incidentally.

Another significant factor is the public ownership of certain elements of the Canadian intermoded system. Not withstanding the apparent inequities in our comparative positions compared to the Canadian ports, I feel that we can materially reduce the impact of user fees by adopting a port specific system, and that's the key to my discussion, predicated on certain basic principles which I'd like to summarize for you:

First, the port of Portsmouth is vital to our defense posture and as such it is imperative that it remain at the optimum operation level. The jet fuel for Pease Air Base is supplied by tankers using the port. The Navy also requires a well-maintained access channel for its attack submarines being overhauled at the Portsmouth Navy Yard. Any maintenance dredging in recent history has been confined to the upper reaches of the federal channel where the fuel tanks for Pease are located. Consideration should be given to the importance of maintaining a channel for the military at a percentage of the operation and maintenance costs be apportioned to the Air Force and the Navy. This would be applied as a credit to our user fee account.

Second, cargo from New England transshipped via Canadian ports should be credited to New England ports on a weighted basis. The tonnage so identified could be assessed a user fee which would accrue as credit to ease the ports for our operation and maintenance charges.

Third, there should be a market-determined cost identification system for operation and maintenance which is based on a premise that current navigation costs include a lot of overhead necessitated by the Army Corps of Engineers mandate to cope with a national disaster like floods, droughts, ice storms, hurricanes, and so forth, as well as a national defense requirement and other public policy, nontransportation objectives. This factor becomes quite evident when we examine the operation and maintenance charges for Portsmouth for the period 1973 through 1978, when no maintenance was necessary. The total charge for the project during that period was $137,822. If the market system or O&M had been in effect, these charges would have been allocated to another cost center and a market determined cost might only be half of what we experienced to date. By using a market system, the amount of money to be generated by user fees could be substantially reduced.

Philosophically, I, and I'm sure most of the people here, accept the premise that if you use something, you should pay for it. I don't think there's any question about that. I think what I'm trying to stress here is the uniqueness of the New England ports, vis-a-vis the Canadian ports. It's something we have no control of, but it's a very real factor and it's a very serious factor.

Thank you, Mr. Chairman.

Senator HUMPHREY. Thank you, George. I think the best way to proceed is simply to receive the statements of each of the witnesses on this panel and then we'll go back and question them.

Mr. Moriconi, assistant port director of the Port of Boston.

Mr. MORICONI. I have a prepared statement.

Senator HUMPHREY. Thank you, I appreciate that.

STATEMENT OF RINO MORICONI, ASSISTANT PORT DIRECTOR, MASSACHUSETTS PORT AUTHORITY

Mr. MORICONI. Senator, we in Boston are very much appreciative that you allow us to come before this panel and tell you what our opinions are as far as user fees are concerned, which actually, in our opinion, we don't like user fees.

Senator HUMPHREY. Who does?

Mr. MORICONI. My name is Rino Moriconi. I represent the Port of Boston in the capacity of assistant port director-traffic for the Massachusetts Port Authority—Massport. I have been in the employ of Massport for some 14 years, and have held my current position since 1978. In addition to monitoring proposed maritime legislation, the Authority's Traffic Division is responsible for the continuous study and analysis of transportation tariffs, rates, charges, and practices of rail, water, and motor carriers serving the Port of Boston to insure that Boston is—and remains in every way competitive with rival ports.

The Massachusetts Port Authority is a self-sustaining agency of the Commonwealth of Massachusetts, and is charged with the responsibility of promoting and protecting the maritime commerce of the Port of Boston. In carrying out these responsibilities, Massport owns, leases, and/or operates some eight public marine terminals all located within the confines of Boston Harbor. These waterfront facilities are utilized for the receipt and shipment of containerized and break-bulk general cargo moving in foreign and domestic oceanborne trades. To date, Massport's total capital investment in its waterfront properties exceeds $85 million. The construction of Boston's third container berth recently completed, required the expenditure of an additional $20 million. And finally, the development of some 36 acres of land for more container space to meet the seaport's growing needs throughout the late eighties and early nineties will prevail upon the authority to make a further financial commitment of $100 to $120 million over the next 5 years.

Since the days of this Nation's infancy, the Federal Government had wisely reserved for itself the responsibility for the country's navigable waters. In 1980, the prospect of increasing coal exports brought to the offices of the Army Corps of Engineers a flood of new applications from various port interests demanding immediate channel improvements so that the expected growth in coal movements could be accommodated. While dredging requests were received with regularity even before the coal boom, what panicked the Federal Government was the fact that the more recent applications sought the deepening of channels by as much as 20 feet below the existing projects, requiring the removal of millions of cubic yards of harbor bottom at costs that defy estimation.

The present administration in Washington, having risen to power by promising to shift the entire direction of this country away from excessive spending and big Government recognized almost immediately that it was not possible for the Government to pay for such enormous channel construction activities and at the same time, keep its pledge to the people to substantially cut the Federal budget. Accordingly, shortly after taking office, the administration caused the introduction of legislation which, in exchange

for expediting the approval process of navigational projects, required 100 percent local funding for any future harbor improvement. The revenue needed would be recovered through the assessment of user fees by the State government or the port authority via its levying and collecting a per-ton charge from vessels transiting the harbor area or from cargo passing over the port's facilities.

The 97th Congress had before it some 3 dozen pieces of proposed legislation dealing with port improvement and user fees. From Massport's perspective, the measures ranged from the totally unacceptable S. 809, S. 810—Stafford, Vt. and S. 1692—Abdnor, S. Dak. To the reasonably palatable H.R. 4697—Biaggi, N.Y.. Actually, as far as Boston was concerned, only S. 2857—Byrd, W. Va. had potential.

None of these bills, however, ever came close to reaching the President's desk. The few that moved beyond introduction soon become hopelessly mired throughout a labyrinth of congressional committees. The lack of industry solidarity and the reluctance of the lawmakers to accept responsibility for authorizing State-created port authorities to transgress the constitutional prohibition against the several States levying duties of tonnage successfully combined to stall the progress of these legislative efforts.

In its testimony given during the 97th Congress, the Massachusetts Port Authority wholeheartedly supported that portion of the proposed legislation which promised to deliver the port industry from the inordinate delays it had experienced during the permitting approval process in the past. It recorded its opposition to that section of the legislation which would significantly reduce or totally abolish the role of the Federal Government in the area of harbor and channel improvement, and that wold transfer such obligations to local entities. And finally, it recommended that Congress restrict the cost recovery scheme to those ports with or wanting channel depths in excess of 45 feet MLW, while any new or maintenance dredging up to 45 feet or less would be funded under the existing system.

In this first session of the 98th Congress, several major pieces of port development legislation have emerged. In the Senate side, S. 865, entitled the "Deep Draft Navigation Act of 1983" and S. 970, the "National Harbor Improvement Act of 1983" have been introduced by Senators Hatfield (R. Oreg.), and Moynihan (D. N.Y.) respectively. S. 865 provides for 40 percent of all operation and maintenance to be paid by the assessment of a uniform user fee consisting of an ad valorem vessel charge based on the value of the cargo being transported. The remaining 60 percent of the cost would be paid through general revenues. The Federal Government and local authorities would split the cost of new construction, with the local share becoming greater as the depth sought increases. Under S. 970, local interests would have to pay 50 percent of the annual Federal costs for maintenance dredging. New construction costs would be shared depending on the depth to which a channel would be dredged. The non-Federal share of the total cost would be raised through a uniform cargo tonnage fee assessed on waterborne traffic.

In the House of Representatives, there is H.R. 2406 (Matsui D-Calif.) which has been identified as the House companion bill to S.

865. The Biaggi bill H.R. 1512 (Biaggi, D-NY) would reduce to 2½ years the amount of time required to go from the feasibility study stage to actual construction of a given port modernization project. At the present time, this process takes an average of 20 years. The Boston Harbor Improvement Study, for example, has been ongoing for 14 years, and the completion of the final written report seems to always be a year away. Finally there is the massive "Water Resources, Conservation, Development and Infrastructure Improvement and Rehabilitation Act of 1983" introduced by Representative Robert Roe (D-NJ). H.R. 3678 would establish a $2 billion per year trust fund for port development, supported by Customs revenues. The proposed measure calls for a 50–50 cost sharing plan for construction and maintenance projects over 45 feet, while the Federal Government would continue to fund 100 percent of the channel improvements and regular maintenance for requirements shallower than 45 feet.

The Roe bill, more than any other, appeals to our sense of equity. Some $6 billion is collected annually at U.S. ports in Customs receipts. It is not unreasonable to expect—indeed demand, that a portion of that money be put to work right where it is earned—in the port fairways of the United States.

Massport is very much concerned that any user fee structure that imposes an ad valorem or tonnage tax on cargoes or ships will drive such cargoes or ships away from our shores to competing ports North and South of the border. Over the border diversion of New England import and export cargo is not an anticipated future nightmare, it is a confirmed evil that already exists.

According to a report released in July 1983 by the Maritime Administration entitled "U.S. Exports & Imports transhipped via Canadian Ports", in 1981 some 2.3 million tons of U.S. origin and destination cargo moved via Canadian port gateways. The New England portion of the total diverted volume amounted to an estimated 231,253 long tons.

Translated in terms of lost opportunities this figure means that first, 85 more vessels could have called at New England ports—but didn't; second, 17,000 additional containers could have passed over New England waterfront facilities—but didn't; third, our tow boat operators could have had another 200 to 250 tug jobs—but didn't; fourth, New England harbor pilots that safely guide vessels in and out of our ports in all kinds of weather could have used the 170 pilotage jobs they didn't get, and finally; fifth, there was 150 to 200 longshoremen that could have been gainfully employed—but sat idle.

Mr. Chairman, user fees, should they come to pass, will not spawn over the border diversion. That problem is already with us. User fees will, however, turn a serious situation into a real bloodbath. Long-established patterns of commerce will be uprooted on such a grant scale that Montreal—not Boston—will become the New England gateway to world markets.

Thank you for your attention.

Senator HUMPHREY. Thank you, Mr. Moriconi.

Mr. William Torpey, general manager of the Fall River Port Authority and past president of the North Atlantic Ports Association, Inc.

Mr. TORPEY. Good morning, Mr. Chairman.
Senator HUMPHREY. Good morning.

STATEMENT OF WILLIAM J. TORPEY, GENERAL MANAGER, FALL RIVER PORT AUTHORITY

Mr. TORPEY. May I first apologize to you and to the committee for total inability to present to you today a written report. One of those problems this week which occurred included some health problems. I shouldn't really be sitting with this great panel this morning, but at the last moment, having talked with committee people, I thought it very important that I, at least, be present and try to add my, extremely, as George and Rino both know, total, total opposition to any user fee concepts that have been with us now for several years.

It's very unfortunate, Mr. Chairman, that the North Atlantic Ports Association, as with the American Association of Port Authorities, have had tremendous difficulty in reaching any kind of unanimity as a port industry to embattle, or to at least to agree where they stand on these kinds of issues. It only shows the complexities of the kinds of formulas that port user legislation would force on our harbors and waterfronts.

Rino Moriconi, in his statement to you just now, actually related, word for word, and almost in not strong enough language, my own kinds of feelings as a representative of a very small port. I won't tell you what Rino calls the port authority on occasion.

It certainly gave me great pleasure, as a volunteer, and I stress that situation, as a volunteer representative of a port authority which is not financed as Massport, which we are all so proud to see operating so well up here in New England. We're a very small port, and it points up another problem I'd just like to almost leave you with; that's the total abandonment, as far as I'm concerned, the total abandonment of the defense means of this country in the port situation and that is when you're adding more costs, forcing local government to try to come up with those kinds of maintenance fees or new construction fees that are going to be imposed, or should not be imposed on it. This is absolutely dreadful. A hundred and fifty to a hundred and eighty ports in this country, and if this trend continues in Congress, there is no doubt in my mind, the east coast will end up with three or four major ports and Portsmouth was to certainly not be one of them, and your defense positions are absolutely going to be wiped out.

I would like, Mr. Chairman, if you would allow me, within the next 10 to 14 days, prepare for you a written statement on my position. Believe me, it's much stronger than I've been totally unable to present to you verbally today and again, I apologize for that situation.

Mr. Chairman, we do not need this kind of action on the part of Congress and I hope, once and for all, that this can be completely defeated, and I don't agree at all that a user fee is the answer. I certainly agree that this must be spread over the entire country's benefits, that the ports of this country are providing to each citizen of the United States.

Thank you very much for allowing me to be here.

Senator HUMPHREY. Thank you, Mr. Torpey.

And Robert Elder, director, Division of Ports and Marine Transportation, Maine Department of Transportation.

STATEMENT OF ROBERT D. ELDER, DIRECTOR, DIVISION OF PORTS AND MARINE TRANSPORTATION, MAINE DEPARTMENT OF TRANSPORTATION

Mr. ELDER. Senator, it is a pleasure to have this opportunity to testify on the improvement, operation, and maintenance of the New England water transportation system for the Maine Department of Transportation. My testimony today is going to be brief, but similar to other positions Maine has taken regarding cost recovery proposals over the past 2 years.

I am sure you can appreciate the difficulty that cost recovery requirements, such as those discussed in S. 865 and S. 970 will impose on our commercial ports, such as Searsport, Portland, and Eastport. These and our other small ports will find themselves in an almost impossible position if they are required to pay for a substantial share of dredging costs of dredging projects.

A two tier system of charges may be more equitable, but we would have to see a lot more information on the final application of these charges before we could take a final position.

In the past, and in today, the Maine Department of Transportation has opposed any attempts to require that all or any major portions of the cost of maintenence projects be recovered from local communities and shippers. Coastal communities, in general, in the State of Maine, depend on the use of our coves and harbor for many commercial purposes. The cost of these projects are not individually high in relation to the total of such work done across the country, but such projects would be very difficult and perhaps impossible to be recovered at the local level. However, such work remains a vital necessity for the economic well-being of our small coastal towns.

As you are well aware, we share a substantial border with Canada. User charges, when applied, will cause shippers to look carefully at the Canadian ports. One of the goals of our current port development and expansion program is to give U.S. and Maine businesses an advantage to shipping through New England and Maine ports. This current legislation is going to hurt this effort and encourage the already large diversion of U.S. cargo to easterly Canadian ports.

I note that we've made some progress in recovering some tonnage from Canada in Eastport. The Maine Department of Transportation does support the limited concept of the equitable cost recovery system to assist in funding new navigation improvement in small and large ports. However, we believe that the following points should be considered in any proposals:

The Federal share of maintenance for navigation projects should be 100 percent in some cases, based on the ability of a non-Federal sponsor to pay. This is a similar position to that of a proposed position of the New England Governors Conference. The local share of any new navigation projects should be 25 percent for channels less than 40 feet, which is the controlling depth of most of our chan-

nels. This share should be applied fairly or more specifically, I think.

And finally, fast tracking or speeding of project approval and implementation process should be an essential part of any legislation related to user charges. Significant reform in this area should be one of the continuing goals of any new Federal and navigational legislation.

That concludes my testimony, and I thank you again for the opportunity to be able to make this statement.

Senator HUMPHREY. Thank you, Mr. Elder, we're glad to have you here.

I think the question first to address and get on the record is, why is it that the Canadian ports have been drawing business away from the New England ports? I have questions for you individually, based on your testimony. I think that's the essential question that we ought to get the answer for, which we need to get on the record.

George, do you want to start out and give us your point of view on that?

Mr. SMITH. Well, No. 1, if you recall in my statement, the differential in the labor costs is very significant; we have no control of that. While they have their unions as we have in this country, the ILA rates are significantly higher; the gang sizes are significantly greater down here. For example, in Halifax the gang sizes are probably a half of what they are here in the States; there is nothing we can do about that as you well know.

Senator HUMPHREY. These cost disparities are with regard to what kinds of employees, what kinds of labor?

Mr. SMITH. Longshoremen.

Senator HUMPHREY. Those that actually handle the cargoes?

Mr. SMITH. That's right, and those costs will conceivably go higher if the negotiations, which are now underway, come to fruition. Fortunately, in this part of the country, although Rino has a problem with funding the GAI and that sort of thing, we don't have them in Portsmouth, but we have other smaller costs. There's a general contract that we all have to abide by in terms of gang size and the rest of it. That's a very significant factor. That coupled with the fact that we have some shipping lines that operate out of Canadian ports, some aren't really interested in the return on investment as much as they are in getting dollars. We have the Third World countries and that kind of thing that come into Canadian ports.

Then we have the question, and I think a very serious question, of the Canadian Government's involvement, indirectly or directly, in financing some of the operations through some kind of a subsidy program. I don't think you can discount that factor. We are limited, in the North Atlantic range by having two types of vessel operators, one is the conference carrier and the other is a nonconference carrier. The conference carriers, as such here, are committed to a rate structure which is significantly higher than the nonconference, even in this country, but substantially more than the Canadian ports. There is nothing we can do about that. They're attempting to hold the line to be cost effective. Right now, I think that there isn't a major shipping line that is returning a satisfac-

tory amount of capital on their investment. It's a sad situation, I think.

Senator HUMPHREY. Our whole maritime picture, from construction to shipping, in virtually every aspect, is in deterioration.

Let me follow up and then ask questions of the other witnesses on this score. Practically speaking, how does this Canadian subsidizing proposes work? That's not with regard to labor costs.

Mr. SMITH. The Canadian National Railroad has a significant interest, for example, in the CAST—in 1983, which is the outgrowth of several different comapnies that hve been in total disarray up in Montreal for the last year and a half. I don't know whether you've followed that or not, Senator, but it started out with CAST and the management of CAST resigned last year, founded a new comapny, Safati, and then the parent company for CAST went bottoms up into bankruptcy and the Royal Bank of Canada got involved and every day in the newspaper there's a new story about CAST.

Finally, the people that left CAST, that were backing CAST, Safati is now part of CAST, it's now called CAST 83, and it's hard to follow them, frankly, but they're still doing the same things that they've done righ along; they've been undercutting the rates, they've been quoting door-to-door rates as opposed to ocean rates aside from inland freight rates.

This is a problem that's been attacked by the North Atlantic Port Association in Congress on trying to get through a bill on cargo diversion, trying to get them to divulge what the elements of the cost are so that we know at least what we're competing against, but this hasn't flown.

Senator HUMPHREY. What you're saying is that these two outfits are underbidding. Are these stevedore outfits that you're talking about?

Mr. SMITH. Pardon?

Senator HUMPHREY. How do you classify these two firms that you spoke of; CAST and Safati?

Mr. SMITH. In foreign language?

Senator HUMPHREY. No. Within the industry, what do you call this entity?

Mr. SMITH. Well, I suppose it's a shipping line, per se, in a tactical sense. I don't know. Rino probably has a classic identification of it.

Mr. MORICONI. Don't ask me.

Mr. SMITH. Don't ask Rino, but, you know, they put together a company with very little capital and they get rolling on these sorts of things and they just go out for the business.

Senator HUMPHREY. As shipping agents, then, are they?

Mr. SMITH. No; they're companies, actually, shipping companies, per se.

Senator HUMPHREY. What do they do? I mean, what is their operation? Do they actually hire these stevedores?

Mr. TORPEY. Mr. Chairman, I think we have, without any doubt whatsoever, a fine Italian young man who has lived with this for 3 years and with the North Atlantic Ports Association, Rino Moriconi has become actually the last line of defense, and that's a true statement, in that there is some weakening in the association itself in the figh that has been carried on against CAST.

Senator HUMPHREY. OK.

Mr. TORPEY. I don't want to waste time.

Senator HUMPHREY. It's essential that Members of Congress understand the situation.

Mr. TORPEY. That's correct.

Senator HUMPHREY. I'm trying to clarify the situation. Now exactly what are these entities? First of all, the bottom line I'm trying to get to is why the Canadians are more competitive than we are. How does Canadian subsidization enter into this whole thing as a practical matter? How do they do it?

Mr. MORICONI. Senator, it's like this. First of all, we have CAST, a steamship line—what we call in the United States a common carrier by water in the foreign commerce. Now what's happening is that CAST—the reason why all the things that George mentioned, you know, the labor costs of the U.S. ports is higher, we accept that and we're trying to work that down.

U.S. labor is unstable, while Canadians are just as unstable as we are.

Senator HUMPHREY. Let me interrupt you.

Mr. MORICONI. Yes, sir.

Senator HUMPHREY. I'm sorry. We can have a nice conversation later on. I need to get the question answered.

By what process, practically speaking, do the Canadians subsidize their shipping lines?

Mr. MORICONI. The CAST group owns 18 percent by Eurocanadian, which is an outfit registered in Bermuda and with that, CN owns part of that organization. As a matter of fact, I think I'm wrong. I don't know how much Eurocanadian owns, but 18 percent of Eurocanadian is owned by the Canadian National Railroads, which is, as you know, a crown-owned company; OK? As a result, the CAST has particularly no secrets in how they're doing it. They are simply wards of the Canadian taxpayer.

Now, if anybody in Boston wants to pick up the tab for Boston, I'll be successful, too. We in Boston, the port authority, we live by the fees we charge for utilization of our docks in the same manner that the American system was established, that everbody pays the going concern value of a service that we perform. We can save labor, and all that is true, Senator, but the fact is that that's not the real reason. The real reason is that it can always draw back for more money. When I draw back, I get my hand slapped or bitten.

Senator HUMPHREY. Does anyone else want to comment on this particular point?

Mr. ELDER. Yes.

Senator HUMPHREY. As succinctly as possible.

Mr. ELDER. There is a tariff by which the American ports must adhere to.

Senator HUMPHREY. Yes.

Mr. ELDER. By regulation.

Senator HUMPHREY. Yes.

Mr. ELDER. The Canadians don't have that unfortunate situation. They don't have to adhere to any tariff or to any price. They go to the shipper and name a price and we have to publish a price for that same service. That's the problem.

Mr. MORICONI. So that all shippers, in other words, all shippers may not be discriminated against. In other words, you go into a company that sells televisions and you tell them, "I'll take a container to Europe for $1,300," and then we have to publish that rate so everybody that makes televisions in New Hampshire can get the same rate. They come to Canada, they go into Simplex Wire and they say, "Hey, you know, we'll give you this rate," and then they'll go out to some Nashua corporation and give them another rate for exactly—well, they don't ship the same commodities, I know, but this is not the way the American system works.

Mr. SMITH. I think there's another point to interject here, too. They control the rate from door to door. In other words, from point of origin to the point of destination, they own trucking lines and you can't get them to tell you what the breakdown is at all and they can submerge their costs, they can do anything they want, and generally speaking, they quote prices, as Rino said, substantially less than we're able to quote. The fact that they went bottom up is indicative of the fallacy of the practice.

Senator HUMPHREY. Does the Canadian Government assess any user fees of any kind on any basis?

Mr. MORICONI. No; Mr. Chairman. As a matter of fact, in the wintertime they, free of charge, they even cut the ice for—what is it, I forget, but they keep the St. Lawrence ice free, for an example. We don't need that in Boston, but I'm sure if we needed it, the Coast Guard would find a way to pass it off to us somehow.

Mr. Chairman, I have some newspaper clippings from a very accredited publication, the Journal of Commerce, and they say that C & N is alleged to have violated the Elkins Act. You might like to look at that on the plane down to Washington.

Mr. TORPEY. Senator——

Senator HUMPHREY. This is getting a little out of hand. I'm in charge, remember that. Let me call on you. Will you seek recognition so that this doesn't turn into a brawl thing. Mr. Edler?

Mr. ELDER. I just wanted to add one thing. I think the Canadian Administry of Transportation has had a policy, over the years, to take Western grain and oil money and put it into Eastern maritime infrastructure port improvements. This is something that you're now fighting dollars that have been tested over a term.

Senator HUMPHREY. Hasn't that been the case in the United States? Let me play the devil's advocate here. Haven't we been taking Federal revenue for capital projects and cover O&M costs in our ports; isn't that a parallel situation? Why is that an advantage?

Mr. ELDER. I would have to look at the numbers. I know in Canada that's not the policy.

Mr. MORICONI. Senator, the problem is that all of a sudden, and I don't want to say this really the way it's going to come out, but it's going to come out bad, the ports and the Federal Government always had a partnership. The Government used to say to us, for 200 years now, this is not something that happened within my lifetime, "You take care of the shore-side facilities so that we can move our cargo but also have the ports available for military situations, and we will take care of the channel." But now the current administration, for which I admittedly profess not too much love

for, especially in the port scene, what has happened is that now they've reneged on the long standing shall we say, relationship, the historical relationship and they're saying, "Now, if you want to dredge your ports, if you want to maintain your ports, we're changing the rules of the game." In the meanwhile, MARAD comes down there and says, "We want to select two of your berths, our best berths, in the event that we go to war we can take them right over." As a matter of fact, they want to appoint me port——

Senator HUMPHREY. OK. Let's not get into that. We'll have to have a hearing on that subject. You can have Senator Kennedy do that.

Well, let me pursue this a little further. I don't want to get too bogged down on this point, but it's an essential point. Let's start off with construction costs. In the United States, until now, the Federal Government paid all the construction costs. In Canada, that's not quite so; is it not? Anybody disagree with that?

[No response.]

Senator HUMPHREY. Now, operation and maintenance costs in the United States are presently fully borne by the Federal Treasury; is that not correct? And in Canada, likewise; is that not correct? So far we're on equal ground; are we not? OK. So the terms of O&M and capital costs, there's not difference, apparently.

Then the real competitive advantage of the Canadians is lower labor costs; is that correct?

Mr. MORICONI. Yes.

Senator HUMPHREY. And in a horizontally integrated operation, sounds like Wall Street; is that true? I mean, they've got trucking and it's all part of it; why don't we do that? Why don't our enterprises do that? Is there an antitrust regulation against that?

Mr. MORICONI. Senator, the integral rates are, in the north Atlantic and in the East, I think they have introduced those. The problem is that under our statute, the land portion of any integral move was always guarded, in other words, was under the jurisdiction of the ICC and the lower portion of the FMC, and you know how these agencies in Washington are, no one wanted to give up jurisdiction. Of course, now the Motor Carrier Act of 1980 and the Staggers Act of 1980 has reduced, the regulation of the rail and truck industries, in other words, they can address more than need, if you will.

Also, the ICC is really not regulated and is just persisting diligently to its demise. So now we're doing the same thing in the United States and the reason we didn't get into it so fast is because our statutes were different, the law prevailed despite the inequities.

Senator HUMPHREY. Right.

Mr. SMITH. I'd like to take exception on the O&M and their being equal to Canada in that the O&M, in this country, includes other things beyond the cost of just the project cost to maintain. In other words, if you go out and it cost $100,000 and we wind up, we get $125,000, because they had to allocate other costs not necessarily related to the project costs. They had to spread their costs around. I think I've alluded to that in my opening statement, and I think that should be looked at very seriously, the market cost for a project.

The other thing is that one of the problems we have here in New England is, in terms of being a military port, basically is that we can't allow any Communist nation's vessels to come in here. It impacts right now on one of our companies, Sprague Energy, in that they would like to ship talow on the Third World bottom, if you will, a ship, and they can't come in here to take it, and we had the same thing awhile back with herring to Poland that had to go in Polish vessel, which isn't allowed.

Senator HUMPHREY. Red herring, to Poland?

Mr. SMITH. But anyway, that kind of thing.

Senator HUMPHREY. I'll pursue this line of questioning with the shippers since they deal, day to day, with the costs.

Well, I've succeeded in clarifying this, for my own purposes, at least.

Now, George, you say that, just left to right here in order of testimony, you say that the proposed plans, both with regard to an ad valorem tax or a tonnage tax, are too simplistic; would you like them more complicated? Why do you say they are too simplistic?

Mr. SMITH. Well, in a sense they are applied, on an even basis, throughout the country without any consideration of the uniqueness of our position. I think that was the reason why I introduced that.

Senator HUMPHREY. That would really be tough to sell in Congress, that certain regions get a special deal.

Mr. SMITH. Now, if we were a port like, for example, Pensacola, Fla., and our competition were within the 150 miles, we'd be in the same basis. We'd have no problem. We could all rise or fall together. But up here, that's not so. Our competition is breathing down our neck all the time and it makes it a very unique situation.

It's not a complicated situation, you can look at the geography of the situation, you can see where we are and we can support it with substantial evidence that proves this is what's happening. MaRad's made a study of a lot of other places that made studies of this sort of thing, not the North Atlantic Port Association. The situation on the west coast is different, you say, "Why don't you have it there?" We have a reverse flow of traffic coming from the Northwest down into Seattle, they don't have the same kind of problem we have, ours is a very unique problem and it hasn't been recognized to date.

Senator HUMPHREY. How far down the east coast does this problem extend?

Mr. SMITH. Actually, CAST, with its trucking firm, reaches down as far as Baltimore and probably south of there, but we feel the impact more up in New England. I guess we're more sensitive to the issue because they're right in our backyard and they certainly do drain a lot of cargo out of New England up there. We have people who, in Portsmouth, love the city, who love this State, who are a port committee and are very supportive of what we're trying to do. The bottom line is they can ship cheaper via Montreal so they ship there and say, "See you later."

Senator HUMPHREY. Yes. Well, can't blame them for that, I guess. This is not really the subject of this hearing, but the question suggests itself, why aren't we not more competitive? I mean, putting aside the capital costs, the port construction and so on, and

O&M, the competitive disadvantage, if I understand your earlier testimony, in response to my question, the competitive disadvantage is in labor and the structure of these enterprises that use the ports. Why are not our enterprises doing whatever they can do; what can they do to be more competitive, since that seems to be where the distinction lies?

Mr. SMITH. I think also the question of port charges up in Canada, they're whatever the traffic will bear. Essentially, what we're talking about in a place like Montreal, particularly the subsidies involved there. The information is available to us and the impact of that, but it's there and it's real and we're limited by Federal law and what have you, and all our rates are published.

Senator HUMPHREY. Well, shouldn't they be? Maybe there's a change needed there.

Mr. SMITH. I think the overriding issue, right now, as I see it is the fact that in the North Atlantic particularly, there's an overtonnage of 50 percent, maybe more than that. There's a really very serious problem there in terms of getting cargo, to make sure the operations are successful, and I doubt very seriously whether there's any one line operating in the North Atlantic at the present time that's making any money. I would think they are all losses.

Senator HUMPHREY. Well, isn't that always the case when you have the Government interfering, 50 percent over capacity?

Mr. SMITH. Over capacity.

Senator HUMPHREY. Why is that? Because Government politicians are messing around in the market?

Mr. SMITH. I think that's a free enterprise system, in a sense, Senator.

Senator HUMPHREY. Lack of it. Truly free enterprise, that excess capacity would go where it could be profitably utilized. That's not the subject.

Mr. SMITH. That's another subject.

Senator HUMPHREY. Let's get back on course here.

Mr. SMITH. OK.

Senator HUMPHREY. Mr. Moriconi, did I understand your testimony to correctly suggest that, you want the ports to receive all the customs collections.

Mr. MORICONI. Not all. We collected last year $317 million in customs. All I need is $52 million. Honest to God, $52 million. The dredging of the Port of Boston will be done for 50 years, so that's not a hell of a lot of money and the ports draw $6 billion, we could get $2 billion, and after the first time around, we wouldn't even need $2 billion.

Senator HUMPHREY. OK. You know, I can't help you with the money. Appeal to somebody else.

What about diversion of coastwise traffic to inland modes, to land modes, if fees are implemented? Anyone want to take a crack at that?

Mr. MORICONI. The coastwise movement of liner cargo, to mean the cargo that the high guide in general cargo was terminated, about 1981. I believe Sea-Land was the last of the shipping companies that had a vessel that left the east coast and went all the way around to the west coast. It is unlikely that oil, which is about the

only thing that moves in great quantities would find that the alternatives would not be great.

Senator HUMPHREY. That's interesting. I wasn't aware of this. It's only oil now?

Mr. MORICONI. It's only oil and lard; in other words, specialized odd-sized cargo that move.

Senator HUMPHREY. Would any of New England or the Northeastern ports stand to gain, would any be uniquely positioned to gain by these proposed user fees?

Mr. MORICONI. We would stand to lose to the Port of New York totally, because you see, it would depend on what formula you use, and I don't want to hog the place, but depending on what formula you use. For example, the last time that I figured out a formula that we used a United States Line vessel that called to the Port of Boston would increase its cost $2,000 per trip.

Senator HUMPHREY. Well, why is New York in a better position?

Mr. MORICONI. Because nobody wants to pay user fees at 15 ports when what they would do, they would go to large ports. They say, "If we're going to pay a tonnage tax, let's go to two ports instead of four, like we're doing now," and since Boston is the smallest of all U.S. North Atlantic ports, the choice would be simple enough for me to respond to.

Senator HUMPHREY. I'm not sure I understand. They would try to use fewer ports?

Mr. MORICONI. Fewer ports.

Senator HUMPHREY. Why would that reduce the costs?

Mr. MORICONI. Because if you have to pay for the utilization of the Boston Channel, you pay $2,000 here, then you pay $2,000 in New York and so on.

Senator HUMPHREY. For what?

Mr. MORICONI. For utilizing the channel, assuming this was a tonnage.

Senator HUMPHREY. One transit? How is that allotted? Two thousand dollars buys you what?

Mr. MORICONI. It pays your user fee portion.

Senator HUMPHREY. For what period?

Mr. MORICONI. For one transit.

Senator HUMPHREY. One transit?

Mr. MORICONI. One transit, yes. You divide that into 100 containers and you have a container that costs you $20 a container added to the cost of the cargo.

Senator HUMPHREY. That same cost would apply in New York, wouldn't it?

Mr. MORICONI. I think maybe I'm not making myself clear. The fact is, why pay $2,000 at five ports when you pay $2,000 at two ports?

Mr. ELDER. If you centralized your operation, you pay New York your costs relative to your volume. You have a higher volume and your relative costs, to your shipping line, would be less, so you would pull out of a smaller port.

Senator HUMPHREY. Does that also apply to an ad valorem assessment?

Mr. MORICONI. The ad valorem assessment was not applied, but that's a totally absurd way of——

Senator HUMPHREY. OK. We'll get into that later. But New York, what you're saying, that if under a tonnage assessment, the larger ports would have an advantage?

Mr. MORICONI. Yes, they would.

Senator HUMPHREY. That is also true with the ad valorem assessment?

Mr. MORICONI. No, that would not necessarily be true in the ad valorem assessment.

Senator HUMPHREY. How would these user fees, however assessed, be absorbed? I think we all realize that ultimately the consumer of whatever is being carried is going to bear the extra costs, but as a practical matter, George, how would the port authority in New Hampshire, practically speaking, how would it pass along the user fees?

Mr. SMITH. Well, I suppose the first thing that comes to mind is that anyone bringing cargo in here, for example, the Sprague Energy Co., they would have oil in bulk, that would ultimately be passed on to the consumer to pay for it.

Senator HUMPHREY. In other words, the costs would be directly higher, for instance, in this case, to Sprague?

Mr. SMITH. Right. It ultimately would come back to the consumer. I think that's true of most any tax, per se, any over costs or any additional costs. We'll pay for it, one way or the other.

Senator HUMPHREY. Oh, there's no doubt about that, consumers will pay, and always do. But under the present system, where these O&M costs and construction costs are paid out of the Treasury, all taxpayers underwrite the cost of O&M and construction, whereas with user fees, to some extent, the costs would be assessed to those who buy the products shipped through those ports, which seems a fairer way of doing it. Should we all pay taxes to keep the Ohio River and the Mississippi River and the Missouri River dredged and so on, when we presumably have very little use of those products in New England? That's what's happening today, of course. Maybe we should make the people who benefit by the shipping of the product over those inland waterways bear the cost through higher consumer costs; that's the fundamental issue here.

Mr. SMITH. I think that philosophy runs contrary to what nationally has happened through the years in terms of just taking the school systems in the State, as such, there are some towns that can't afford the kind of education required, so there's a general assessment distributed from a State level that equalizes those inequities. I think that any tax, no matter what it may be, and whatever it's on, is an inequitable tax, from my point of view. There is no such thing as fair taxes.

Senator HUMPHREY. I'm sure you could get a lot of people to agree with that. Well, it's an old question about how you assess costs; it's not a new one. The challenge is where you draw the line, I suppose.

Mr. SMITH. I think the overriding issue is that the port system is a very integral part of the whole structure throughout the country and the whole system. Without it, we're lost, obviously, and since we're the major importing Nation in the world, I wish it was the opposite, frankly, it's very important that we maintain those avenues and maintain them in good shape.

Senator HUMPHREY. I understand your point of view.

Are certain business enterprises more likely to be hurt by these user fees than other regional industries?

Mr. MORICONI. It depends on, I would say, who can afford the most. I don't think the oil companies will sweat too much over an extra nickel on a barrel of oil. I'm not an oil expert. I would say that, as far as the line of trades are concerned, the additional assessment upon you changes the whole balance of what makes Boston or Portsmouth, or Providence attractive versus somewhere else. It could be the hair that broke the camel's back.

Mr. TORPEY. That's close enough.

Mr. MORICONI. Close enough, yes. It's a very competitive industry which is struggling and this is why I fight so hard to keep Boston alive.

Senator HUMPHREY. Have New England ports lost traffic to ports farther south along the Atlantic coast, Baltimore, and so on?

Mr. MORICONI. Yes.

Senator HUMPHREY. Why?

Mr. MORICONI. Well, for one thing, some of our basic industries have flown the coop. We used to ship out hides and so forth, and all our shoemaking machinery would be imported.

Now, we get imported shoes and all the material and fabrics have all gone to the South and Hampton Roads probably benefits from there on south. Yes, we've lost from our basic industry. There has been some move to centralize carrier operations because it just makes sense to be centralized.

We have the high-technology industry. I'm talking just Massachusetts now. And the fact is that the high-technology industry, the containers pay a lot of revenue, so it is attractive to the steamship lines to come to Boston, but not really necessary. If you want to take it to New York, on a container, you know, taking it 250 miles is not a vast amount of mileage to go.

Senator HUMPHREY. How much of the loss in New England port traffic to southern ports can be attributed simply to the move of New England industry south? How large a factor is that in the overall loss of cargo to southern ports?

Mr. MORICONI. Well, let me just say that in looking at the statistics for the Port of Boston, back in 1965 to 1967, we used to do 1.1 million tons of general cargo and we're down to 820,000 tons now. I would say that probably 200,000 to 250,000 tons of that represents, cargo that has flown the coop, due to the movement of industry to other locations.

Senator HUMPHREY. The bulk of the loss is simply the movement of industry?

Mr. MORICONI. The movement, yes, but the fact that the high-technology industry doesn't have the need for the machinery, and while the money is there, the volume isn't.

Mr. SMITH. I think it's important to note that over half of the shipments out of New England today go air freight, as opposed to ocean freight. That's indicative of what Rino's saying about the high-technology versus heavy industry, and if we've lost that, that's gone.

Mr. MORICONI. One of the things that's an advantage in Boston is the high-technology industry, when they ship out your computer, they like to keep it within 21 miles of where it was manufactured.

Senator HUMPHREY. Well, all right. We've used about an hour with this panel. I think we had better move along to the next panel. Thank you, gentlemen. I appreciate your coming.

Our next panel is comprised of Henry Powers, president of C. H. Sprague & Son, Portsmouth, N.H.; William Horohoe, president of John T. Clark & Son of New Hampshire, Inc., located in Boston, Mass.; William Carey of A. N. Derringer, Inc., Portsmouth, N.H.; and Philip Terasivic, vice president of New Haven Terminal, Inc.

Gentlemen, good morning and welcome. Thank you for your help. We'll start from my left to right, Henry Powers, C. H. Sprague & Co. Henry, good morning.

STATEMENT OF HENRY POWERS, PRESIDENT, C. H. SPRAGUE & SON CO.

Mr. POWERS. Good morning, Senator. Thank you for coming to Portsmouth on a Saturday morning and listening to our observations and sometimes, complaints.

I might think you possibly were in a no-win situation, you're damned if you do and you're damned if you don't. Another cliché we could throw in is, an eye for an eye and a tooth for a tooth situation.

I represent C. H. Sprague & Son Co. We are probably the largest independent privately held terminal operation in New England. We operate seven depot terminals from Maine to Rhode Island for the importing and exporting of various goods and materials, primarily energy, but we are better known as an energy and diversified material handling company in the region.

I have been operating all my working life for some 30 years in and on and off vessels, ocean going barges, ships, tugs, and on the end of a dock and running a business that I run today and have been running for 11 years.

We are, probably, by far, the largest user of the Piscataqua River in the Port of Portsmouth, both in value of cargo and in tonnage.

We use the port for importing all grades of domestic and industrial petroleum, and other products we either import or we export are tallow, which we recently started this project for export to Europe on a monthly basis; liquid caustic soda, which we import for regional industry; asphalt, which is used for road building, ashpalt cement which is used for road building in New Hampshire and throughout the region. We also import coal and gasoline in our current plants, and coal is a major project of ours and other terminals throughout New England.

We have two docks on the Piscataqua River, one of which we operate for Public Service Co. and they own the dock and the facility, and our own facility in Newington, which we operate for ourselves. New England and New Hampshie have very few indigenous natural resources, which I'm sure you're aware of, other than our people and our trees. Therefore, most all of our energy, coal, and oil, must come from sources outside of New England, and many other of our raw materials.

We are indeed, to use an often used phrase, on the end of the pipeline, hence we are at a frank disadvantage with other eastern seaboard and Gulf Coast States. This adds greatly to our manufacturing costs here in New Hampshire and New England, and also to our domestic heating costs. I do not oppose the user fee concept, if it is inevitable that we must have one, and I think at this point it probably is. I only wish to have a plan that will be fair and equitable for New Hampshire and for New England. In other words, how do we raise the money to be fair to all regions? And you asked this morning for some unique conditions here in New Hampshire, and I'd like to have you consider several of these points as unique, and therefore, the inequities they're involved with would been shuffled around to make it fair for the region.

What about ships of the Federal Government? Are they going to pay or will the whole burden be on private industry? They use the river almost as frequently as we do. Portsmouth and the Piscataqua River is closed to Warsaw Pact vessels because of the naval shipyard. This regulation limits the use of the port and the river. We recently, as George Smith mentioned, have had a demand to ship tallow to Russia. It would be picked up in Russian vessels. We have pursued this with the State Department and learned that it's a hard rock situation, that the port is definitely closed to these Russian vessels, and in light of recent happenings, I'm not asking that it be opened for special reasons, put that in parentheses.

If the draft exclusions in these bills are considered, this would ship much of our cargo from ships to barges. Now here I'd like to make an example. Probably there are very few people that know when a normal sized vessel, such as the *Sprague Capella* or the *Sprague Arocturas* comes up the river, there are 240,000 barrels of petroleum on that vessel. The value of that cargo alone is between $6 and $7 million. That is sometimes more than the value of the ship that's carrying the cargo. What we could do to avoid the fees, if you put a draft limitation on this, is merely bring in three smaller sized barges.

Senator HUMPHREY. Thanks for the tip.

Mr. POWERS. I'm not trying to get around the law, but I'm suggesting again, this is a position we must consider if we're going to be equitable.

The port fees for Portsmouth are higher than most New England ports and Canada, and I'll elaborate on that. We here are required to use three tugs on a handy size vessel carrying 240,000 barrels of oil. This is due to the configuration of the river. We are only required to allow one vessel per tide to come into the port, that's a large-sized vessel. Liquid petroleum gas, more commonly as LPG, is restricted to daylight hours. Therefore, they cannot come in and out during the night when the tide is right, if it be right.

There are hazards in this port. I'm sure you're aware of, there are three bridges. The configuration of the river is somewhat hazardous, if not very, very difficult. The tidal currents, this is the second fastest current on the east coast, is to be considered by way of safety.

Finally, there seem to be two ways of accruing this money: one for maintenance and one for new projects. This river doesn't have the maintenance that a Midwestern river might have, due to silt-

ing, and you mentioned that briefly earlier on. Thus we wouldn't have a similar need, as some Midwestern rivers would have. Three years ago was our latest maintenance project, the same as the current one they are going to deal with a little later this morning. Our latest major channel improvement was in 1965. The next project, the expansion of the turning basin between the bridges for safety reasons, has been under study and review for 10 years. Really, we don't have a huge demand for these kinds of moneys to be spent on maintenance and new projects. In short, we haven't spent much, so we shouldn't be unfarily charged much.

Thte's all I really have to say, unless you'd like to cross-examine me a little bit later. Thank you for allowing us to be here.

Senator HUMPHREY. Thank you, Henry. I would like to come to questions, but let's proceed to the other witnesses. Mr. Horohoe.

STATEMENT OF WILLIAM HOROHOE, PRESIDENT, JOHN T. CLARK & SON OF NEW HAMPSHIRE, INC.

Mr. HOROHOE. Senator, good morning. Our company is in the stevedoring business. We operate piers and marine terminals at the Ports of Portsmouth N.H., Boston, and Baltimore. I believe that it's quite possible that some people here in this room may not know what a stevedoring company is. For clarification, a stevedoring company is a contractor who performs the unloading and loading of ship's cargoes to steamship line principals.

I don't profess to be an expert on user fees; I read a little bit about them in the newspaper and some of my associates here, particularly from the Port Authority, have made many more detailed studies of this subject than we have, but as businessmen, we feel the application of user fees to cover the cost of port dredging projects would place an unfair financial burden on the user of New England ports for the following reasons, and some of these points have been touched on by other speakers:

New England ports, such as Portsmouth, Boston, and Providence, face strong competition for container cargoes from Canadian ports, in particular, the Port of Montreal. Each year literally thousands of tons of container cargo from the New England area are imported and exported through the Port of Montreal at lesser costs than if the same container cargoes were handled at New England ports.

The Port of Montreal, for example, is serviced by several nonconference line carriers, steamship lines who quote the lowest freight rates possible to attract New England cargoes through their ports, and it is true they even go down as far as Baltimore and truck cargo from the Baltimore area up through Montreal cheaper than if they were shipped on conference carriers out of the Port of Baltimore.

The point in this matter is that the application of user fees at New England ports would further increase the shipping cost differential between Canadian and New England ports and as such, more and more New England container cargoes would be imported and exported through Canadian ports.

Second, small ports such as Portsmouth, New Hampshire, handle comparatively small volumes of cargo and any substandard user fee cost increase to steamship lines, importers, and exporters, call-

ing at smaller ports could have such an adverse effect that these smaller ports could possibly be closed down to commercial steamship business.

To illustrate this point, our company at the Port of Portsmouth, N.H., handles Halpag-Lloyd steamship line who runs a small container feeder vessel, the MS *Yankee Clipper*, from Halifax to Portsmouth to Boston and Providence each week. This feeder vessel unloads and loads approximately 20 to 25 containers per week at Portsmouth. We feel that with such a small volume of Portsmouth containers, if Halpag-Lloyd had to pay separate user fees at the Ports of Portsmouth, Boston, and Providence, they would, in all probability to decrease their user fee costs, stop calling at Portsmouth and possibly Providence and would handle all their containers at one part, probably the Port of Boston. This would mean that Portsmouth would be closed to the feeder ship call and the containers that we discharge from the Halpag-Lloyd ship presently would have to be trucked up over the road from Boston to Portsmouth.

Third, user fees could also have a most adverse effect on the importation and exportation of bulk cargoes at U.S.A. ports. To illustrate that point, I would mention that at the Port of Portsmouth, one of the based cargoes exported is bulk scrap metal. We average approximately 150,000 tons a year of exporting of bulk scrap metal. The exporting of bulk scrap metal is a highly competitive business in that bulk scrap metal suppliers, worldwide over, bid on the same orders going to foreign steel manufacturers. The cost differential in the bulk-scrap-metal market is quite small and, in our opinion, the application of user fees to the exportation of bulk scrap cargoes at U.S. ports would place our export scrap metal suppliers at a competitive cost disadvantage with foreign scrap suppliers and accordingly, would result in a substantial decrease in the exportation of bulk-scrap-metal cargoes from U.S.A. ports.

Fourth, we support the proposal, which we understand is now being considered in Congress, whereby a portion of U.S. customs duty revenues on imports would be allocated to fund dredging projects at U.S. ports. It seems to us that since the substantial portion of U.S. customs duty revenues are derived through the importation of foreign cargoes are more aboard the ships, that it would be most appropriate to use a portion of these customs duty revenues to fund dredging projects at U.S. ports.

Thank you.

Senator HUMPHREY. Thank you, Mr. Horohoe. Mr. Carey. Mr. Carey, if you're not planning to do it, will you tell us what A. N. Derringer, Inc. is and does?

STATEMENT OF WILLIAM CAREY, A. N. DERRINGER, INC.

Mr. CAREY. Yes; I will. A. N. Derringer, Inc., is a foreign trade program which, as a forwarder, we provide a wide range of service to assure the prompt and safe deliveries of the customers export goods to their destination.

One of the services we provide is obtaining ocean freight costs. In order to serve our customers, we do comparison on these costs to see if there is a cost savings by going out of Canadian ports. I have shown a couple of examples of these comparisons. The commodities

are hardwood lumber from New Hampshire, and frozen blueberries from Maine. In both cases, attempts were made to compete with Canadian ports by lowering the prices.

For example, lumber rates from Montreal, Canada, to the United Kingdom, $600. From Portsmouth, N.H., to the United Kingdom, $900. That's for a 40-foot container of lumber—$300 difference in price that is offset by the trucking cost from the New Hampshire mill to Montreal. In this case, it's cheaper to go out of Portsmouth, it's not necessarily cheaper, but the price is very competitive, it's very close. To give you an idea, Montreal to Antwerp is $420. That's almost unheard of in the industry to ship something that far for that amount of money. It costs as much to ship it from the mill to Montreal.

The costs from Portsmouth to Antwerp is $750. Again, the cost per inland truck to Montreal balanced that out, and so it's profitable to ship it out of Portsmouth. These lumber rates are competitive and the lumber is in fact at this point going out of Portsmouth.

It's worth it to point out at this time that a year ago the same cost for shipping out of Portsmouth was about $1,500 and the lumber was in fact going out of Montreal. Blueberry rates, out of St. Johns, Canada, to Japan, $4,880. From Portsmouth to Japan, it's $5,875. In this case, the U.S. rates are not competitive and the freight will move through Canada. These blueberries are coming from Ellsworth, Maine, in that area, where they're grown. The trucking cost from there to Canada is about $500, and from there to Portsmouth is about $500, so it's not a factor. But the ocean rate is cheaper, so it will move out of Canada.

Lumber is a volume export product and therefore the competition for it is keen. Steamship companies are willing to lower prices for this type of commodity, possibly because it's a good way to reposition their empty containers.

Blueberries are seasonal and require refrigeration and therefore there's less competition for that particular product. The point is that the Canadian ports have no user fees, as such, and putting the additional costs on products moving through the U.S. ports will divert more and more cargo through the Canadian ports.

Thank you.

Senator HUMPHREY. Thank you, Mr. Carey. Mr. Powers, Sprague is a firm that is based in Portsmouth. Do you use any other domestic ports, or are you just in and out?

Mr. POWERS. We have two terminals in Penobscot Bay, one at Searsport and one at Bucksport. We have another one on Penobscot River at Brewer. We have one in Massachusetts at Weymouth, and we have one in Providence, R.I.

Senator HUMPHREY. I didn't know that.

Mr. POWERS. All of them are rather large.

Senator HUMPHREY. You operate terminals, but you also have ships?

Mr. POWERS. Yes.

Senator HUMPHREY. You have two ships?

Mr. POWERS. We have ships both which we own and are under charter, coming in and going out of these ports all the time. We also charter barges not only for petroleum, but for other materials.

I might make a note of the fact that I think the gentleman from the Massachusetts Port Authority mentioned that a nickel wasn't anything to petroleum companies. On that vessel I mentioned, the 240,000, it happened to be $12,000. If you put a nickel on a barrel, and every time a vessel comes in, it's going to be $12,000 and you yourself said it's going to be passed on to the consumer, and indeed it is.

Senator HUMPHREY. Mr. Carey, Derringer is a middleman between a party who wants to ship something somewhere and a shipping line; is that correct?

Mr. CAREY. Yes; we provide a service. Basically, our expertise is negotiating the rates and completing documentation. The normal manufacturer doesn't have people in its own organization that are qualified to do that.

Senator HUMPHREY. Right. Well, as a shipper comes to you and says, "We've got a shipment of material that we want to send somewhere," and you advise him or do you just take over from there and determine the best way to ship it; is that how it works?

Mr. CAREY. We have to do both, depending on what questions he asks, and sometimes they'll ask us to get the comparison between Canada and the U.S. ports.

Senator HUMPHREY. And then you make arrangements with which shipping line is to move it; is that how it works?

Mr. CAREY. Yes.

Senator HUMPHREY. From your point of view, why are the Canadian ports more or less expensive, more competitive than New England ports?

Mr. CAREY. First of all, the biggest competition down here is CAST. That's where we lose most of our freight now.

As a forwarder, we don't really lose it, we get paid regardless of whether it goes to Montreal or not.

Senator HUMPHREY. Right.

Mr. CAREY. However, my observations, which is not based on a lot of facts or anything as this.

Senator HUMPHREY. You're in good company. I don't mean that with regard to the witnesses.

Mr. CAREY. The reason that CAST is competitive is because they're operating basically at a loss.

Senator HUMPHREY. How can they do that? That's why they're in bankruptcy?

Mr. CAREY. That's right. The last couple of years, they've been in threat of being in bankruptcy twice, and have been bailed out, one way or the other, regardless of whether you call it the Canadian Government or the Canadian banks. Most likely it was guaranteed or subsidized somewhere along the line by the Canadian Government. That's what you hear. I mean, if you read into what they're saying in the papers and what the agents in Montreal are talking about, the first thing is that the Canadian Government bailed them out, which you could call a subsidy, or whatever you want to call it.

This last time around, their pricing had changed in a whole lot of years, and for all practical purposes, it's probably safe to assume they'd be doing the same thing again next year. And the prices that they're quoting—I mean, the U.S. lines are competing with them, and admit freely that they're not making any money, but

again they've got to reposition equipment, they might as well put freight in it. That's not the normal way of doing business, it's a desperation move, and in the case of lumber, if you're talking even $100 more for that cargo, it would most likely go out of Canada, again.

About all you can say is that CAST is competing because they're losing money.

Senator HUMPHREY. Well, that can't go on forever. I still really haven't gotten to the bottom of this. This is really the subject of the hearing, but it's important to know about it. By some mysterious way, some poorly operated company called CAST is raiding the Canadian Treasury and therefore they're undercutting our ports.

Mr. CAREY. When you figure the Canadian National Railroad is involved, and the Royal Bank of Canada is involved, and any bank in their right mind is not going to continually throw good money after bad. Eventually they're going to say, "Let's get out while the getting's good," but they haven't done that, the reason being, or assumably, that they're getting aid from the Canadian Government.

Senator HUMPHREY. Guarantees or something?

Mr. CAREY. Yes.

Senator HUMPHREY. OK. Well, I guess you all agree that if user fees are instituted we would become more disadvantaged in the Northeast and therefore, you are opposing it; is that a fair assessment?

Mr. POWERS. I'd just like to add, Senator, that three years ago I was in the American Merchant Marines and in its hay day when we had literally thousands of American vessels plying between the east coast ports and Europe, all over the world, and now I think the figures are at something less than 400 American flag vessels in the Merchant Marine. I'm sad to say that I was a part of that demise, because I thought as a young graduate from the Maritime Academy these wages were fantastic. I couldn't believe, having come off the farm and gone to sea and made all kinds of money, but I think that you're very close to putting your finger on what's going to happen with regard to American ports. It's no secret, it's the same thing. The longshoremen's wages are completely out of line with the costs, and the more you focus on that, the more you are going to focus on why cargoes are going to Canada. Whether CAST is playing a part in this or the Crown Government of Canada, because the crown government is subsidizing other forms of energy and labor, but the American Merchant Marine put themselves out of business and the longshoreman's going to put himself out of business.

Senator HUMPHREY. That's true with shipbuilding, unfortunately, Mr. Powers, exactly.

Thank you very much for your testimony.

Mr. POWERS. That's not an exactly popular stand that I just took, but I had to do it. Thank you very much.

Senator HUMPHREY. Well, thank you very much. It's true too, Henry.

Our third panel and last is Maj. Edward D. Hammond, the Deputy Division Engineer, New England Division, U.S. Army Corps of Engineers. He is accompanied by Mr. Joseph L. Ignazio, Chief of

Planning of the New England Division, and Donald Martin, Chief of Basin Management Branch, New England Division.

Gentlemen, thank you. Pardon me, and also Dick Holt, harbor pilot and tug master. I have to be more careful. I'm going to be in his charge in a little while and have to extend him the proper courtesies. Dick Holt, harbor pilot and tug master of the Portsmouth Navigation Division.

Major Hammond, will you lead off, please?

STATEMENT OF MAJ. EDWARD D. HAMMOND, DEPUTY DIVISION ENGINEER, NEW ENGLAND DIVISION, CORPS OF ENGINEERS, ACCOMPANIED BY JOSEPH L. IGNAZIO, CHIEF OF PLANNING, AND DONALD MARTIN, CHIEF, BASIN MANAGEMENT BRANCH, NEW ENGLAND DIVISION

Major HAMMOND. Mr. Chairman, I am Edward Hammond, Deputy Division Engineer of the New England Division, Corps of Engineers. It is a pleasure to appear before your committee today to discuss the proposed project at Portsmouth Harbor and the Piscataqua River. I have with me today Mr. Joseph Ignazio, Chief of the Planning Division, and Mr. Martin, former Chief of the Coastal Development Branch.

We have been asked by the Chief of Engineers, Lt. Gen. Joseph K. Bratton, to appear before you to represent the Corps of Engineers and to discuss the study of Portsmouth.

Portsmouth Harbor is formed by the mouth of the Piscataqua River along the New Hampshire-Maine boundary. Water commerce has increased steadily during the past decade from about 1.8 million tons in 1969 to 3.1 million tons in 1981. Harbor users and local officials expect Portsmouth Harbor to continue to play a significant role in the economy of the region by handling an increasing amount of commerce. The harbor also serves as the home of the Portsmouth Naval Shipyard and the avenue of fuel deliveries to Pease Air Force Base. A firm with major Defense Department contracts also makes use of the habor and channel up the Piscataqua River.

The existing 35-foot deep, 400-foot wide Federal channel is characterized by sharp bends, swift currents, narrow lift bridges, inadequate turning basins, and a tortuous natural channel which limit safe navigation by deep draft vessels even during periods of slack water. However, vessels up to 700 feet long now use the channel. These 700-foot vessels are up to 150-feet longer and carry up to 10,000 dead-weight tons more than those vessels used for design of the existing project.

The New England Division of the Corps of Engineers has prepared a report, in response to a resolution adopted by the U.S. Senate Committee on Public Works, to determine the advisability of modifications to the existing Federal navigation project at Portsmouth Harbor. We have completed our investigations and a report was submitted to the Board of Engineers for Rivers and Harbors in April 1983. Our study considered a wide array of management measures to address the navigation problems of the harbor including the use of favorable tides, navigation aids, multiport operations, lightering, the use of other ports, and improving navigation

facilities. These measures were formulated into alternative plans which were evaluated.

The recommended plan of improvement, which has not yet been approved at the Washington level, includes widening the 35-foot deep turning basin, located between the vertical lift bridges near the western end of Badgers Island, from its current 600-foot width to 1,000 feet, also widening by 100 feet the northern limit of the channel adjacent to Badgers Island, and widening the southern limit of the channel at Goat Island from 400 feet to 550 feet. These are shown on the charts to the side of the Congressman.

Senator HUMPHREY. I thought that the upper part had been disapproved.

Major HAMMOND. Correct. One side has been.

Senator HUMPHREY. OK; we'll go into it in detail.

Major HAMMOND. Basically, we're just talking about those two areas.

Senator HUMPHREY. All right.

Major HAMMOND. These improvements will require removal of an estimated 228,000 cubic yards of sand and gravel and 305,000 cubic yards of rock. The total estimated project cost is $21.2 million. The average annual benefits are estimated at $2,165,000, all for commercial navigation. The current benefit-to-cost ratio is 1.2 to 1 at an interest rate of 7⅞ percent.

My report recommended use of an upland-disposal site in Newington. Subsequent investigation has show it's unacceptable. Accordingly, further coordination is currently underway with the States of New Hampshire and Maine to determine the best available alternative disposal site.

With regard to additional effort required, the selection of a disposal area is of prime concern and importance; and we are continuing toward resolution of this issue. Additional geophysical information is also being developed.

Mr. Chairman, our studies have addressed the safety problems attendant to navigation on the river, and we have formulated a project that addresses these concerns. The regular channel will remain at its current depth of 35 feet and width of 400 feet. The project would alleviate the existing navigation hazards at the bends and turning basins, and it would provide an improvement to this navigable waterway which produces positive net economic benefits to the Nation.

I am aware that both the Congress and the Administration are working toward new cost sharing policies for port development which would likely involve some percentage of cost recovery through a form of user fees; both for new construction and maintenance. We are keeping abreast of the situation, but I am not in a position to comment on the impacts of any new cost sharing policy on this project.

Mr. Chairman, this concludes my statement. I'll be glad to answer any questions.

Senator HUMPHREY. Thank you, Major Hammond.

Dick, did you have a statement?

STATEMENT OF DICK HOLT, HARBOR PILOT AND TUGMASTER

Mr. HOLT. Yes, sir.

Senator HUMPHREY. Go ahead.

Mr. HOLT. I would like to point out some of the problems, Senator, and how we got to these problems and why. If I may stay up there at the board——

Senator HUMPHREY. That's fine.

Mr. HOLT. This is the beginning of a Federal project, Portsmouth Naval Shipyard being here [indicating]. This is the area known as Goat Island Ledge.

Before I get into the channel itself, I came on the scene here about 1961, which was about the end of the T-2 area, liberty ships, victory ships, World War II thing. Our channel is pretty much geared up and the dock facility is still handling that type of ship.

As time wore on and new ships came out, the Jumbo Ice T-2, and so on came along, we arrived at ships up in the middle—500, 600 feet long. We were still OK, and as time went on, the economics dictated that you get more modern, larger—get the cost down, get-it-all-in-one-ship concept came along. The older, smaller ships have been disappearing. Consequently, the number of ships in the world today that can call on the Port of Portsmouth is diminished greatly, there aren't that many. Where we'd like to have had 20,000- to 30,000-dead-weight-ton ships now, we're upward in the middle 50,000-ton ships, and they are hired to come here because there is nothing else. If we can't accommodate these ships, we're all going to be just out of business, and they'll go somewhere else.

One thing, about 10 years ago a group of us, the pilots and the users, saw the writing on the wall and where we might have gotten one or two ships, say 650 feet long, which was really a trauma back then, we began to get these things two or three a week, and now most of our ships are over 600 feet. We're up over 700 feet and that seems to be what's coming. The channel's not designed to handle that. We have strong currents, sharp bends, and that's all rock, and we have to negotiate two lift bridges, which were laid out back in the sailboat era. We are very fortunate they were made high enough to accommodate the ships getting underneath.

Interestingly enough, the two lift bridges seem to be the thing that's going to limit the size we can get in here. We thought it might be length of beam an it's turned out to be probably the height of the bridges that restricts what we can get underneath it.

So, that's where we are in coming in with the 700-foot ship through here, we go around this sharp turn and it's like driving your automobile, when you make a nice, sharp turn to the right, you like to cheat a little and get over to the left to make it easier, and with a 700-foot ship, you can't just stop and swing it on a hinge and go around the corner. Due to the nature of the river, when anything is very big and heavy, we always come in with the current. Slack current places, you near the turn, and you really don't have that. The current comes in, and stops, and goes right back out again. You're always working with current. You have to pick the time to go when it's going to least affect you.

But when we're coming in with a big ship, we're going with the current, which is the worst thing in the world to do. You really

don't want to do that, but we have to. So we're coming in, and when we make the turn, ships are sliding in the current, are going very slow to allow our tugboats to work. If you go fast, the tugboats aren't effective. The stern of the big ships goes right over in here [indicating]. There is a buoy here. Now, we have to wait until we get by the buoys so the stern of the ship can clear this rock pile when we go around here. This will greatly eliminate the risk going around this corner, and as we go up through the channel, we're approaching the first lift bridge. It seems like rolling out of bed in the morning, if you fall out, it's going to be a bad day. You figure you might as well get back and start again. Well, we can't do that. Once you start in here, and we're out of shape going around this corner, it seems as though the whole trip up the river is screwed up, that's just the way it seems to work.

So we go from this chart, I'll get over this side, and we're coming up the river over here [indicating], what's called the Memorial Bridge, Route 1 bridge, downtown Portsmouth, Memorial Bridge is 250 feet wide. A very old bridge, very reliable. Let me digress just a minute.

Way back by the Portsmouth Naval Prison, due to the fact that we can't turn around after we go by the Navy Yard, by radio we communicate with the two-lift bridges and a lot of the local people have probably cursed us more than once. The bridge may be up 20 minutes. But we have to get that bridge up and know that it's mechanically sound in the raised position, because if we go by a point of no return with a 700-foot ship, we can't turn around. We're coming in with the current, we're making a turn to the right, right on Badgers Island. If the bridge isn't up, we can't turn around here. We can't stop the ship, and it's going to turn around, you can't stop it.

What you would have ship hung up on both ends across the river. So we're very, very careful. If the bridge has got a problem, we turn around by the Navy Yard and go back out, and time is critical in this place that if you fool around like that and lose 20 minutes to half an hour, you're too late. You have to go back to sea and wait 12 hours for the next appropriate tide. This is the real switching area which makes you go from one foot to the other. When you come around this corner, when you see the bridge is in the air, you feel pretty good about it.

Our primary problem is with safety. We were worried about spilling oil and you can't put a value on an oilspill. So when we went to the corps with it, their first reaction was, "What's your problem? We haven't had any problems there, what are you worried about?" Well, there's one there, it's potential. We'd like to eliminate that and the economic benefits to the New Hampshire Port Authority, Granite State Minerals, would almost pay, the gains there are fantastic.

When we turn ships around at this pier, and at Dave Mahoney's, we need shoehorns when we turn around in this area. And I'm sure more than once we've already felt we've widened the channel in a couple of spots where we've snowplowed some gravel or something.

One thing I touch on, we can't convince the Navy, they're kind of in neutral about this. It's fine if we do and they don't care if we

don't. It's very important to the Navy. They change commanders and admirals and everybody else, and everybody's thinking is different. Somewhere down the road, as happened in the past, they've come up and wanted us to bring the crews of North Hampton into the shipyard. This was a few years ago when Linden Johnson was President. They're just liable to come up right now out of the clear blue sky and want to do something like that.

I'm sure that once you take the stuff out of here, these areas aren't going to require any maintenance. Once it's filled in, it's going to stay that way but anyway, touching back to the navy yard, there is a rail spur underneath this bridge right here [indicating]. The interstate bridge—the Navy relies on it, I'm sure, and they couldn't do a lot of their nuclear work transportation without that link, and I wanted to ask them, which I didn't, how would you like to be without your bridge? And it's conceivable, you know, if we don't get some relief in here with what we're doing, I hope that it wouldn't happen, but it's conceivable, if we hit that bridge, probably would put that rail out of service for a long time. And I don't know, again, economically how you calculate the value of that.

From this point up the river there are no recommended projects. We had one at the end of navigation that we would like to see done to the end. It's an 800-foot turning basin and we're turning 700-foot ships in it. It doesn't seem as though we're going to be allowed to get it. Still we're going to turn 700-foot ships in there, perhaps even bigger.

That's probably my quick 5 minutes. I could talk here for hours, but I'll sit down and entertain questions.

Senator HUMPHREY. I wonder, before you sit down, if you would discuss what's been done over the years in various parts of the channel, as a refresher.

Mr. HOLT. Well, up until 1965, practically nothing's been done.

Senator HUMPHREY. What kind of bottom is there along that stretch?

Mr. HOLT. Down here at Goats Island, this is all ledge, solid rock, just about. Up in this area here, this is ledge, along Badgers Island. This is the 100-foot spot that you're talking about widening the channel. It seems like it's two separate projects, but this is all one. Up in here, it's a combination of mud and gravel with ledge underneath. I think it was about a 1-to-3, 3-to-1 mixture of gravel versus ledge, half and half?

Major HAMMOND. Half ledge, half gravel.

Senator HUMPHREY. Is there a lot of exposed ledge in the terminus of the river?

Mr. MARTIN. There is at Goat Island. It's considerable.

Mr. HOLT. If you were going over there right now, you could go over and pick mussels. You can walk around over in here. At low water, there's nothing.

Senator HUMPHREY. Then what has been done over the years in the way of maintenance and also in the way of projects?

Mr. HOLT. In 1965 the Goat Island ledge came out further than it does now. The corps took a piece off here [indicating]. They dredged what's known as Henderson's Point or Pull And Be Damned Point. They cut it off straight up and down to 35 feet. Right through here [indicating]. It used to run out further.

Senator HUMPHREY. What was the name you called it, Pulling By Damn?

Mr. HOLT. Pull And Be Damned. When you row, you row your heart out and you couldn't get around it, back in the rowing days.

Senator HUMPHREY. It's an old sailing term, I guess.

Mr. HOLT. Right here [indicating], it's an area called Gangway Rock across from the navy yard. It used to extend way out in here [indicating]. We had to go over and skim the navy yard to go through that. Before we did this, we were moving big ships only in the daytime and a 640-foot ship was big, because we only were having about one a month. That really opened the place up, and now we're trying with very little work to accommodate these bigger ships.

One point worth mentioning, we have a 35-foot channel at low tide. As you know, our tide range might average 9 feet, sometimes 11, sometimes it's 8 or a little less. If the facilities like the piers could accommodate 38, 39, 40 feet, on high tide we could bring those drafts up here. I don't see, unless these bridges were taken out of here, that we would ever go down to the 45- or 50-foot draft. I couldn't see that.

Thirty-five feet is good, we're not deepening and we should get rid of this mess in here [indicating]. This is bad news.

Senator HUMPHREY. What is the clearance on those bridges?

Mr. HOLT. The old bridge, the Route 1 bridge, the Memorial Bridge was built back in the sailboat days. Its vertical clearance with high water is 150 feet. Consequently, just prior to World War II, the interstate bridge opened at 135 feet. Now the new 95 bridge was build the same way, 135 feet at high water.

Senator HUMPHREY. You say that would be the restriction with respect to the bridge you do this now?

Mr. HOLT. We turn ships away, because we can't get them under these bridges. They come in and pump the cargo off and there's just no way to get them back down enough to get them out of here.

Senator HUMPHREY. Have there been any serious accidents on the river on this stretch?

Mr. HOLT. Not so far.

Senator HUMPHREY. Only through the skill of the pilots.

Mr. HOLT. Well, this place is like, I don't know, perhaps something like you're familiar with with flying, you can never be too careful. You think you've got it made, you turn around it it'll bite you. We try very hard not to take any chances.

We made Mr. Powers very unhappy. Occasionally a ship will show up and he's out of oil and needs it and we just say, "Geez, it's just not safe, there's no way we can do it," and we don't do it and it passes off and occasionally we're not very popular, but it's through necessity, and it's paid off, so far.

Senator HUMPHREY. What kind of dangerous cargo use this port?

Mr. HOLT. I would think probably three-quarters of the cargo in and out of here is petroleum ranging from gasoline, black No. 6 fuel oil, No. 4 oil, kerosene, diesel oil, and LPG, which gets a lot of attention from the Coast Guard. Perhaps they are no worse than an empty gasoline tank.

The Government, getting back to Federal cargoes, supplies Pease through here with jet fuel. Simplex, probably 90 percent Federal cargo, cable manufactured coming in and out of here.

Senator HUMPHREY. What is your nightmare, that a ship will get away and collide with an abutment?

Mr. HOLT. No. The fact that we may just get up through here, at some point in time, somehow be coming through this bridge and it is not all the way up, or not able to get all the way up, and somehow we've got ourselves committed, there's just no going back.

Through the physical makeup of all the single-screw ships which we bring in here, when you back the engine down, they back very vigorously to port and they always swing to the left. You're making a righthand turn and already, because of the current in the channel, you're backing the ship at the same time, and we carry three tugboats, sometimes four, but there's no way on Earth you're going to stop that ship from turning around. What do you want to do, do you want to hit the bridge or do you want to go around? You take your pick.

Senator HUMPHREY. What would happen in that case, if you had a cargo of some petroleum product on that?

Mr. HOLT. You'd have cargo in the water or you'd have a bad oilspill. Conceivably, if the ship were big enough and heavy enough, I don't like to say this because I don't want to sound as though, well, maybe we shouldn't even be bringing ships in here. It's not that bad, but it's conceivable, if you've got a ship hung up on both ends and the tide went out, you're going to break in half.

Senator HUMPHREY. Really? Well, the danger to the shore, to the environment is clear, what potential danger is there to the residents?

Mr. HOLT. Well, an oilspill, I'm afraid would, the way we have the current, would spread itself equally between the States of Maine and New Hampshire. The current would flush it out very quickly, but you don't need an oilspill in the river, because the recapture of a spill is very difficult, because of the current. It just doesn't stay still.

Senator HUMPHREY. Is there any danger of explosion of any of these cargoes if it hits a bridge?

Mr. HOLT. I don' know. I suspect, if you had gasoline or LPG, or something similar with a low flashpoint, if you got down around the navy yard where you're got exposed welding, that type of thing, it's possible.

Senator HUMPHREY. Where does the LPG tanker dock?

Mr. HOLT. It goes about 2 miles above the I-95 bridge.

Senator HUMPHREY. What length of ship is that?

Mr. HOLT. We have had, interestingly enough, the last couple of those we had, one was 705 feet long and came in empty and loaded liquied propane to go to Japan.

Senator HUMPHREY. How does that reach the terminal?

Mr. HOLT. It came by rail from Canada, I believe.

Senator HUMPHREY. Is that right?

Mr. HOLT. It's very flexible. They load or discharge whatever the economics dictate.

Senator HUMPHREY. You mean the Canadians are using New England ports? I'm glad to hear it. What about gasoline cargoes?

Mr. HOLT. Right now, Mobil Oil Co.—and Sprague is talking about getting into gasoline. Mobil is the only one right now. Mobil will bring, probably every 3 weeks, have a tanker with what they call a drugstore load; they'll have two or three grades of gasoline, diesel oil, kerosene, and No. 2 heating oil.

Senator HUMPHREY. Where is the terminal for that?

Mr. HOLT. It's right beside Sprague, off this chart, Senator about three-quarters of a mile above this bridge.

Senator HUMPHREY. What length of ship is that?

Mr. HOLT. They run their own ships and are 650 feet. They do charter ships just under 700 feet.

Senator HUMPHREY. And they turn them around up there?

Mr. HOLT. Yes, sir. Most facilities have their turning areas near each pier where we can turn around.

Senator HUMPHREY. What kind of traffic does the port have; do you have statistics? I suppose I should have asked George that question.

Mr. HOLT. George has it recorded last year, or the last year and a half, the oil business kind of went crazy. We had a lot of oil, we had warm weather and there was not that much moving, but prior to that, an average month for us in the wintertime for Portsmouth probably would be maybe 12 to 14 oil tankers varying from 600 to 700 feet. We probably would get three or four general varieties of ships for salt, maybe loading scrap iron, the Simplex Wire & Cable factory, so we probably get 14 to 15 ships and maybe 8 or 10 barges pushed by tugboats.

Senator HUMPHREY. All right. Thank you.

Major, if this project is approved in Washington, what would be the timetable for carrying it out?

Mr. MARTIN. If it was approved for construction?

Senator HUMPHREY. Yes.

Mr. MARTIN. It would take us 8 months, approximately for plans and specifications.

Senator HUMPHREY. That part is not yet done?

Mr. MARTIN. No, that part's not yet underway or done. We're in the design, memo stage, sir; very general.

Senator HUMPHREY. You've got a general design?

Mr. MARTIN. No.

Senator HUMPHREY. Well, on what is this $21 million cost based, a feasability study? It will take you another 8 months to design it from the date of approval?

Mr. MARTIN. Yes.

Senator HUMPHREY. Then how long for the work?

Mr. MARTIN. As you are aware, there is currently a $300,000 budget item for continued planning and engineering in the F–184. That's to continue this general design idea concept. The construction could start subsequent to completion of plans and specs.

Senator HUMPHREY. What about seasonal factors, are you competing?

Mr. MARTIN. We're pushing for a continuous construction period, only because it's not expedient to do otherwise. Otherwise it might take five consecutive construction winter seasons.

Senator HUMPHREY. Really?

Mr. MARTIN. The winter is the poorest time to consider construction. We do our maintenance in the wintertime, but if you're doing a large construction job, it's not terribly practical.

Senator HUMPHREY. Well, then on a continuous basis, how long would it take to complete that?

Mr. MARTIN. Sixteen months.

Senator HUMPHREY. Sixteen. Will there be any impediment to larger vessels during that construction time?

Mr. HOLT. These two projects are off the channel, so really it's coordinated for the everyday moves.

Senator HUMPHREY. How great a problem is this matter of finding a place to dispose of the material? Is that nearing resolution, or is that going to be a thorn?

Mr. MARTIN. It's a continuing thorn, however, it's nearing resolution, sir.

Senator HUMPHREY. Good.

Mr. MARTIN. We feel we have developed a plan that the State of New Hampshire will be very happy with.

Major HAMMOND. Basically, this is very good material, as far as rock, et cetera, that could be useful.

Senator HUMPHREY. Yes. Do you have any estimate on when the Washington office of Corps of Engineers will reach a final decision on this?

Mr. MARTIN. It's posible that the Board of Engineers, Rivers and Harbors may met and approve this project on or about the 1st of December, sir. That's their next meeting.

Senator HUMPHREY. Is it possible that they might meet and disapprove this project?

Mr. MARTIN. I find it unlikely.

Senator HUMPHREY. Unlikely. Glad to hear that.

You deal with other Federal agencies in projects of this nature. I understand the fuel logistics, but I'm not sure whom to address this question to. You can jump in as it fits.

The Fuel Logistics Agency expresses support of this project. Can you talk about that?

Mr. MARTIN. That is the agency that supplies the fuel to the Pease Air Force Base, specifically.

Senator HUMPHREY. Yes.

Mr. MARTIN. Out of the Camp Hendron Station in Virginia to Pease. It's unloaded at Newington and goes way up stream.

Senator HUMPHREY. For what reasons are they supporting it?

Mr. MARTIN. They could use larger ships, sir, I believe.

Senator HUMPHREY. Would that lower the cost?

Mr. IGNAZIO. One, it would lower the cost to the Government.

Mr. HOLT. Can I touch on that subject?

Senator HUMPHREY. Yes; certainly.

Mr. HOLT. The Government charters a variety of merchant ships working under MSC to carry Government cargoes. They want to be able to bring in anything they've got chartered, which include ships approaching the 45,000-ton bracket, which they can do now.

Senator HUMPHREY. Is there any danger that, I suppose there is, if you get any ship hung up in that channel, how long would it take to clear it away so that these fuel vessels can come in? How often do they come, these fueling ships for Pease?

Mr. HOLT. Pease moves cargo by a variety of ways, including barge, but no matter who it is, I would suspect if you had a large ship in a problem, it would completely close the channel to everybody.

Senator HUMPHREY. For how long?

Mr. HOLT. I don't know. Depending on what you did.

If you're just aground, it would be a matter of maybe just waiting until the tide came in to get off.

If you had something real serious, it might be a long stretch. It would affect not only Pease, but Public Service Co. of New Hampshire for their generating stations that need oil.

Senator HUMPHREY. Yes; it would be pretty inconvenient for home heating oil too, if it happened.

Mr. HOLT. Inconvenient would be a mild way of putting it.

Could I say one thing just for the record?

Senator HUMPHREY. Yes.

Mr. HOLT. The group in Portsmouth that initiated this whole thing, as far as getting the renovations in the channel was the Portsmouth Harbor, Piscataqua River Improvement Safety Committee, is a committee of the Portsmouth Capella Club, which you've heard so much about. I just thought I'd let you know that.

Senator HUMPHREY. Well, good. We salute them.

I've heard of the Capella Club; I am aware of their work. George Smith at the Portsmouth Port Authority deserves a lot of credit too.

On that score we have Dave Carney from the Governor's office, I understand. He has a letter he wishes made part of the record; is that correct? Will you bring that up, please, Dave?

[Mr. Carney presents the letter to Senator Humphrey.]

Senator HUMPHREY. I have a letter from Commissioner Clements of the New Hampshire Department of Public Works and Highways which he has asked be read:

I'd like to take this opportunity to express my concerns dealing with your committee's work to reestablish the user fee concept relative to our Nation's harbor system.

As you know, I strongly endorse the principles of the Reagan administration concerning cost sharing. Those that benefit—and in fact must—shouldner some of the responsibilities commensurate with those benefits. Although, it is not always feasible to expect that in every case those who benefit can carry the financial burden, I believe that the Port of Portsmouth is one of many small ports in New England who merit special consideration.

In recent years, the New England ports have experienced a serious decline in shipping due to a variety of factors—the most significant being the diversion of cargoes through Canadian ports while Canadian diversions were up 9 percent nationally in 1981, they were up 17 percent in the two customs districts serving New England. The cost for moving cargo is the primary factor in diverting cargo through Canadian ports. Any increase in costs for this area, particularly New Hampshire, will make us less competitive in the market place.

While I support, in general, the administration's desire to set user fees for port dredging projects, I believe the uniqueness of New Hampshire's geographical locations, vis-a-vis, the Canadian ports of Halifax, St. Johns, and Montreal, warrant special consideration.

I urge you and your committee to give serious consideration to any constructive proposals being offered today that would mitigate the impact of user fees on our Port of Portsmouth.

I am willing to work with you to arrive at a balance which will be fair to the Nation's taxpayers as well as be reasonable and within expectations of the New England ports and those who use them.

Sincerely, John A. Clements.

Senator HUMPHREY. We're grateful to have that letter.

One last question: Major Hammond, in your statement, you noted that water commerce has increased steadily during the past decade from about 1.8 million tons in 1969 to 3.1 million in 1981. Do you have projections for increases in future years?

Major HAMMOND. Yes, sir, as far as both with the project and without the project there's been projections so the future economic benefits could be calculated.

Senator HUMPHREY. Do you want to comment on this? I realize that's part of your study, but it would save us time, if you could extract that for us.

Major HAMMOND. Mr. Martin, the primary project officer; would you answer that, please?

Mr. MARTIN. Sir, I don't believe we really anticipate greatly increased shipment through the harbor, but what we are trying to do is make it safer and more efficient.

Senator HUMPHREY. But isn't there going to be a growth through natural factors? We've seen quite a growth over a period of 14 years, as you cited.

Mr. MARTIN. Our economists have not predicted a large growth in any port, as a matter of fact, sir, including Portsmouth.

Senator HUMPHREY. Let me depart from the ordinary procedure. George, have you made any forecasts on growth?

Mr. SMITH. No; we haven't any projections. Of course the significant portion of the cargo in Portsmouth is fossil fuels or oil, that kind of thing, that's been stabilized, as a result of what's happened over the last 4 or 5 years. We expect cargo to—cargo levels to increase through our particular facility, the port terminal, but what percentage of the total that will be is hard to predict. It's going to grow; there's no question about it.

I might add, we're looking at, and we're in the process now of designing another burden facility. We expect that will have quite an impact on what we're doing.

Senator HUMPHREY. All right. Thank you.

Mr. MARTIN. We would anticipate, sir, that all other things being equal that the project would fair very well in its share of future increased volumes that—we just don't predict a terrific growth. The largest—the largest piece of shipment is in fossil fuel.

Senator HUMPHREY. What about other New England ports, are they growing faster than Portsmouth?

Mr. MARTIN. They are not.

Senator HUMPHREY. They are about the same?

Mr. MARTIN. They are probably growing slower.

Senator HUMPHREY. Is that right? How do you account for that?

Mr. MARTIN. Much of Portsmouth—much of that which represents the terminal to the Port of Portsmouth are relatively new. It's a newer facility.

Senator HUMPHREY. Yes. And therefore, is more attractive?

Mr. MARTIN. I don't—I can't say.

Senator HUMPHREY. That's getting out of your area.

All right. We might wish to submit further questions to you in writing, if you don't mind, and we will leave the record open for 3 weeks for the further submission of further written testimony.

We thank you very much for your help this morning.

The subcommittee stands adjourned.
[Whereupon at 12:13 p.m. the hearing was adjourned.]
[Material supplied for the record follows:]

Maryland Department of Transportation
Maryland Port Administration

Lowell K. Bridwell
Secretary
W. Gregory Halpin
Port Administrator

September 19, 1983

Honorable Gordon J. Humphrey
531 Hart - S.O.B.
Washington, D.C. 20510

Dear Senator Humphrey:

In connection with your upcoming field hearings regarding the impact of user charges on diversion of U.S. cargoes to Canadian ports, please find enclosed relevant material on this important subject which I would request be placed in the records of the hearings.

Our port, as well as its sister ports in the North Atlantic and Gulf ranges have been seriously impacted by this cargo diversion and we believe that safeguards in any user charge legislation against these practices is very desirable, but such measures taken alone are insufficient to curb the diversion. What is required is passage of legislation such as S. 205 and H.R. 1511 and we would urge you to actively support that legislation.

Thanking you for your cooperation, I remain,

Sincerely,

Richard A. Lidinsky, Jr.

Richard A. Lidinsky, Jr.
Director of Tariffs and
National Port Affairs

RAL/dha
Enclosures

My Telephone Number is (301)- 659-4480

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Teletypewriter for hearing or speech impaired:
Baltimore Metro: 383-7555
D C Metro (toll free): 565-0451
Statewide toll free: 1-800-492-5062

THE CONTINUING PROBLEM OF CARGO DIVERSION FOR NORTH ATLANTIC PORTS

PREPARED BY THE
DEPARTMEMT OF TARIFFS
AND NATIONAL PORT AFFAIRS
MARYLAND PORT ADMINISTRATION
BALTIMORE, MARYLAND

June 3, 1983

Over the last five years, the Port of Baltimore and its sister ports in the North Atlantic range have suffered serious container cargo losses due to Canadian cargo diversion, estimated at over three million tons in 1981 alone.

What began as a somewhat novel method of transporting American Midwest cargoes to and from Europe through Montreal,has now become a floodgate of cargo movements across the Canadian border which are not subjected to any federal waterborne commerce regulation. This inequity is glaring and serious in the face of continued general cargo declines at all major North Atlantic Ports and the unemployment of countless thousands of maritime transportation laborers.

The following chronology, statistical extract, and rate comparison is presented to give an overview of this serious situation.

Richard A. Lidinsky, Jr.
Director of Tariffs and
National Port Affairs

Researched & prepared by MPA Student Interns Elisa Drost & Witt Farquhar

PART I

A HISTORY OF DIVERSION AND U.S. PORT CARGO LOSSES

In 1969, CAST North America Ltd. -- the primary diverter of U.S. cargoes to Canada -- began its shipping operations on the North Atlantic, between Montreal and Antwerp. Its parent company, Euro-canadian Shipholdings Ltd., was then owned jointly by Frank Narby, in the form of Dolphin Investments, and Canadian investor Donald Webster, through his Helix Shipping Ltd. The following year, CAST initiated its container service on the North Atlantic route, shipping approximately 14,000 TEU's; however, financial troubles almost forced the company to abandon its container services by the middle of the decade, despite the fact that shipments had increased over 170% to 38,000 TEU's. Canadian National Railway became a third owner in the company in 1975, expending $12 million. The share of ownership then became, as it remains, Narby (Dolphin Inv.) 61%, Webster (Helix) 21%, and Canadian National 18%. CN is owned by the Canadian government.

As CAST increased its share of the containerized cargo market, problems arose. Between 1976 and 1977, U.S. North Atlantic ports registered a striking loss in box traffic to their neighbors north of the border, especially Montreal and, to a lesser and steadily declining extent, Halifax. The seriousness of the novel trends represented by these trade figures (see charts, Part II) prompted the Federal Maritime Commission (FMC) to review the issue of Canadian cargo diversion in a regulatory proceeding. Initially, the Commission acted to exercise jurisdiction over these cargo movements but it was reversed by the

U.S. Court of Appeals for the District of Columbia(Austasia Intermodal Lines vs. FMC 580 F2d 642). In the same year, this ominous diversion of trade drew legislative attention in Congressional bills H.R.6034 and S.887. These bills proposed FMC jurisdiction over cargo movements as well as a requirement to set Canadian rates so that U.S. ports could compete.

The problem of cargo diversion was indeed severe. By 1979, figures of U.S. tonnage exported by way of Canada had almost doubled those of just three years earlier. The Port of Montreal found itself in the midst of an unprecedented boom in 1980, when its containerized traffic (300,367 TEU's) comprised 45% of Canada's total. Meanwhile, CAST's shipments of containerized cargo were increasing exponentially -- figures for 1980 reached 90,000 TEU's. In June of the same year, CAST officials announced a massive $235 million expansion program, claiming this would double the company's capacity by mid-1983.

The passage of the Motor Carrier Act on July 1, 1980, ameliorated conditions for the continuation of Canadian cargo diversion. In the ensuing atmosphere of deregulation, the ICC granted motor carrier authority to CAST, who had insightfully abandoned the hiring of U.S. carriers for those of its own subsidiary to evade U.S. regulations. Furthermore, Canadian popularity had soared all over the country in the meantime because of their celebrated assistance in the Iranian hostage crisis; the introduction of even remotely anti-Canadian legislation in Congress was therefore rendered politically unwise, at

least temporarily. Consequently, H.R.8095 was delayed consideration until September. Introduced then by Thomas Ashley of the House Merchant Marine Committee, this bill was more limited in scope than were its predecessors, attempting to require parties diverting cargoes from U.S. ports merely to comply with the government standards already regulating U.S. carriers.

CAST North America Ltd. continued to grow undauntedly, however. This same month, September 1980, saw the company acquire twenty U.S. and European offices formerly owned by Seatrain, who had been driven out by the cut-throat competition of the North Atlantic route. Concern grew among American interests involved in the diversion issue, especially those of the Gulf ports, for CAST containers and carriers had been seen as far south as New Orleans.

In the beginning of November, CAST was awarded the contract to handle mail between the United Kingdom and Canada for the following ten months. Two weeks later the company announced substantial increases in its house-to-house tariffs from Europe (the Continent and U.K.) to the U.S. East Coast and Midwest, as well as from the Midwest and Canada bound East.

December saw the ICC consider a request from the North Atlantic Port Association to participate in motor carrier proceedings between Canadian officials and those of the ICC and the Department of Commerce. The meetings concerned alleged unfair treatment of U.S. truckers by the

Canadian government, but the Association was concerned foremost that their interests on the subject of diversion would go unrepresented. In the end, their request was denied; Canadian and American authorities at the closed meetings resolved that no unfair treatment had been demonstrated.

The new year, 1981, brought continued evidence of CAST's success in diverting cargo. The company shipped 120,000 TEU's -- a 33% increase over its record of the year before. Undoubtedly reflecting the conditions conducive to Canadian routing, the Port of Montreal was predicted in 1981 to surpass Hampton Roads, Virginia, as the third largest North American container port on the Atlantic.

In an effort to counteract the diversion, Representative Mario Biaggi (D-NY) introduced bill H.R.3637 on May 20. The bill would require carriers shipping U.S. cargo via Canada and Mexico to publish and file rates for their U.S. freights. It subsequently cleared the House Merchant Marine and Fisheries Committee by a vote of 25 to 9, despite opposition from the State Department, the Reagan Administration, and several large corporations. In the meantime, however, the surprising decision in December of CN not to increase its share of Eurocanadian Shipholdings, CAST's parent company, to 26% (from 18%) foreshadowed trouble on the company's horizons.

CN inaugurated 1982 with its second surprise in as many months as R.A. Bandeen, the company's president and chief executive officer, announced his resignation on January 25. Many insiders linked Bandeen's departure to the company's recent decision not to invest further in CAST:

> ...(R)ather than emerging as the majority owner of CAST, as most people had expected, the railway decided ... instead to limit its participation to the 18% it had owned since the mid-70's. The board decision was apparently motivated by its concern about CAST's growing financial problems ....Within days, Dr. Bandeen had resigned. (Seatrade, February 1982, "Cast Derailed")

Indeed, CAST was not faring so well as it had led people to believe. In the same month of January, the struggling company announced a $275 "emergency recession surcharge" per container, effective March 1; immediately following another hike averaging $130, this addition alone raised the tariff 16%. It was also made public at this time that CAST was struggling to meet payments on three 150,000 d.w.t. combination carriers the company was constructing in South Korea; the ships cost some $60 million each, but they were believed to be worth less than $30 million apiece as a result of current trends in commercial freight shipping.

Subsequent occurrences in February destroyed any lingering hopes of CAST's financial stability. In the second week, CN abolished all credit terms with the ailing company, offering to ship their containers only for cash payments: CAST owed the railway between 4 and 5 million dollars. A British court contemporaneously attached the line's assets in Britain and Bermuda on behalf of the Bank of Montreal, the Royal Bank of Canada, and the Chemical Bank of New York; CAST was indebted to the banks $50 million, $50 million, and $30 million respectively. Furthermore, the Canadian Transport Commission ordered CN to file publicly a "proposed" but actual investment in CAST in 1980,

wherein the railway had purchased $31.5 million in convertible, non-voting preference shares and $6.3m in non-convertible shares. Later in the month, CN railway officials negotiated again to increase their holding in Eurocanadian, once more opting against it. Therefore, by the end of the month, the future of the line was looking dim. Despite the boost of CN's restoration of credit to CAST (after only two weeks of cash-basis carrying), Frank Narby was forced to surprise the public by offering one-half of his company's container operations for sale at a price of at least $100 million.

The balance of 1982 proved far less extreme for Narby and his CAST line. Although the line's bulk carriers were transporting over 70% less than their 1980 cargoes (Forbes), Narby stated publicly in March that, armed with "another trick or two up his sleeve," (Gazette, Montreal, 3/23/82), he might not have to sell half of his container business after all. By this time, the drastic "recession surcharge" of $275, instituted on March 1, had raised the price of CAST's North Atlantic container services above those of some competing lines; however, Narby claimed many were returning to CAST because the competitors had not handled the sudden increase.

On the American side,1982 saw Senator Daniel Inouye (D-HA.) introduce cargo diversion bill S.2414 in April. This bill was virtually identical to H.R.3637 in that it too required carriers moving U.S. cargo through neighboring ports to file their tariffs with the FMC. H.R.3637, the counterpart of the Senate bill, cleared its way through the House Energy and Commerce Committee at about the same time.

Meanwhile, back in February, the ICC had effectively frozen all Canadian applications to operate trucks within U.S. boundaries, pending a Commission investigation of the regulations governing U.S. motor carriers in Canada (Ex Parte - MC 157). The North Atlantic Port Association's Traffic Board petitioned the ICC in June -- as this freeze continued -- to examine allegations of Canadian National control over CAST North America Ltd. The Association charged that CAST had intentionally failed to describe the extent of alleged financial ties with the railway, and, claiming their relationship was one of actual control, appealed to the Commission's authority on these grounds to deny CAST motor-carrier rights within the U.S. In late October, however, having uncovered no mistreatment of U.S. truckers by the Canadian government, the ICC lifted its freeze on all Canadian motor carrier applicants. Included was permission for CAST to spread its motor carrying operations into nine new states, including several in the U.S. mid-Atlantic region.

The intervening months of August and September saw more action, this time on the part of CAST itself. In August, the shipping line shocked the public with a sudden announcement that it would join the North Atlantic conference, setting a tentative date of December 1, 1982; however, the drastic competition brought by the newly formed, independent Sofati Containers Lines forced CAST to renege the following month.

Finally, the eventful year ended in legislation with the cargo diversion bills, H.R.3637 and S.2414, stagnating at the termination of the 97th Congress. For CAST North American Ltd., 1982 finished on a

PART II

CARGO STATISTICS

IMPORTS/EXPORTS DIVERTED THROUGH CANADA
(DOLLAR VALUE)*

	Imports	Exports	Total
1976	757,855	496,715	1,254,570
1980	2,180,220	2,099,115	4,279,335

IMPORTS/EXPORTS DIVERTED THROUGH CANADA
(ESTIMATED LONG TONS)*

	Imports	Exports	Total
1976	815,745	587,987	1,403,732
1980	981,849	1,179,292	2,161,141

*Source: Office of Market Development - U.S. Dept. of Transportation - March 1982

NORTH ATLANTIC PORTS -
FOREIGN GENERAL CARGO TONNAGE**

	1976	1978
Boston	1,401,488	1,208,324
New York	15,866,508	15,327,132
Philadelphia	3,126,462	2,601,069
Baltimore	3,408,074	2,665,414
Norfolk	3,859,347	3,374,747

**Source: Waterborne commerce of United States - Corps of Engineers - Department of the Army - Quantities shown in tons of 2,000 lbs.

PART III

NORTH ATLANTIC ROUTE -- TARIFFS PER EASTBOUND CONTAINER*

Item	N Atlantic Cont Frght CONFERENCE	INDEPENDENTS TFL	INDEPENDENTS POL	INDEPENDENTS CAST**
Wool, fabric N.E.S.	$3200.	$2960	$2255	$1575
Denim, jeans, jackets, etc.	$2400.	$2300	$1655	$1575
Cups, paper (packed)	$2160.	$2060	$1610	$1575

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* Tariffs apply to 20-foot containers (800 cubic feet), shipped house-to-house. In U.S. dollars.
FROM Eastport, Me./Hampton Roads, Va. TO Belgium, Holland, and Germany (excluding German Baltic ports).

** Average lumpsum rate per 20-foot container: Montreal-to-Antwerp. As of March 1, 1982 (Journal of Commerce).

down note concerning the other Canadian government-run railway. Canadian Pacific lowered the 30-day credit terms they had extended to the line from $400,000 to only $250,000, forcing CAST to stop using the railway altogether in its intermodal operations. CAST's business with CP had amounted to approximately $100,000 weekly, or $5 million a year.

Today, the current rate structure on the North Atlantic reflects the damage done to fair competition by Canadian cargo diversion in the wide rate disparities still in existence between U.S. ports' "compensatory" rates and Montreal's "non-compensatory" rates. 1983 promises to be a crucial year in this continuing problem.

In late May of 1983, the Canadian anti-combine (antitrust) officials began seizing CAST/SOFATI for examination regarding non-compensatory rate structures and predatory pricing practices in the North Atlantic trade. On June 21, Eurocanadian Shipbuildings, Ltd., parent Company of CAST went into the hands of receivers appointed by the Royal Bank of Canada. Marine operations were suspended and the Royal Bank repossessed seven CAST vessels, four ore-bulk-oil (OBO's) and three container/bulk combination vessels (conbulkers).

The Royal Bank already owned the three conbulkers from a $200 million effort to prop up the defunct container line in April of 1982. Faced with the dilemma of writing off a $160 million loss as did the Canadian National with their $62 million investment, or operating the line in hope of salvaging their investment, they chose to further support the line's continued operation. This has not lessened the degree or effect of diversion of U.S. cargoes. CAST officials proclaim holding their market

share, and no change in their commercial philosphy. Their primary competitor, SOFATI, announced chartering two additional vessels to accommodate the sudden increase of demand due to CAST's difficulties. This can only bring on another round of rate-cutting and over-tonnaging of the North Atlantic trade.

Finally, the announcement by SEA-Land of direct service calls to and from Halifax, Nova Scotia gives rise to speculation of a direct confrontation with the Canadian cargo diverters. Sea-Land's stated intent is to handle Canadian cargo and not divert U.S. cargoes through Canada. Deprivation of Canadian cargoes to CAST, SOFATI and other diverting lines, however, will cause them to intensify their pressure on U.S. cargo to fill their vessels with the probable result being more rate-cutting and de-stabilization of the North Atlantic trade.

DEPARTMENT OF THE ARMY
NEW ENGLAND DIVISION, CORPS OF ENGINEERS
424 TRAPELO ROAD
WALTHAM, MASSACHUSETTS 02254

April 1, 1983

Planning Division
Coastal Development Branch

Honorable Gordon J. Humphrey
United States Senate
Washington, DC 20510

Dear Senator Humphrey:

I am pleased to inform you that we have completed, as directed by the Congress, the Feasibility Report concerning the advisability of modifying the existing Federal navigation project in Portsmouth Harbor and Piscataqua River, New Hampshire and Maine.

In formulating plans for solving harbor problems, consideration was given to both nonstructural and structural alternative plans during the study process. The report recommends Federal participation in enlarging the existing turning basin, which is located between the vertical lift bridges near the western end of Badgers Island; widening the northern limit of the channel at the southern end of the aforementioned turning basin adjacent to Badgers Island; and widening the southern portion of the channel at the bend in the vicinity of Goat Island, all in the interest of commercial navigation. To do so, it would be necessary to remove and dispose of an estimated 228,000 cubic yards of sands and gravels and 305,000 cubic yards of rock. Disposal of this high quality material was originally scheduled for the Fuel Storage Corporation's upland site in Newington, New Hampshire. However, difficulties in assuring future availability of that site have caused us to reopen consideration of alternative disposal sites. To this end, coordination is continuing with the pertinent agencies of the States of New Hampshire and Maine.

The total estimated first cost of proposed improvements is $21,200,000.

A public notice summarizing report findings will be distributed to interested parties on April 5, 1983. I am enclosing advance copies of the public notice, press release, and a list of the names and interests to whom the announcement will be sent.

Should you have any questions, please feel free to contact me at (617) 647-8220. Mr. Martin of my staff coordinated the investigation. Should your staff desire additional information, he can be reached at 647-8528.

Sincerely,

Carl B. Sciple
Colonel, Corps of Engineers
Division Engineer

Enclosure

Copy Furnished:
Honorable Gordon J. Humphrey
United States Senator
720 Norris Cotton Bldg.
275 Chestnut Street
Manchester, NH 03101

DEFENSE LOGISTICS AGENCY
DEFENSE FUEL SUPPLY CENTER
CAMERON STATION
ALEXANDRIA, VIRGINIA 22314

IN REPLY REFER TO DFSC-O

1 JUN 1982

SUBJECT: Portsmouth Harbor/Piscataqua River Improvements Package

TO: Colonel C. E. Edgar
Department of the Army
New England Division,
Corps of Engineers
424 Trapelo Road
Waltham, MA 02154

1. The Defense Fuel Supply Center (DFSC), a primary level field activity of the Defense Logistics Agency (DLA), supports the subject channel improvements project at the Portsmouth Harbor/Piscataqua River, New Hampshire.

2. DFSC presently is responsible for managing a strategically located JP4 fuel terminal and associated pier adjacent to the New England Tank Industries site. This terminal receives all its fuel by river traffic and this channel improvements project will enhance DFSC's transportation posture.

FOR THE COMMANDER:

JAMES E. BICKFORD
Colonel, USA
Director of Supply
Operations

cc:
DFR-NE
DFSC-G
Pease AFB
ATTN: MAJ McCann

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79-0475
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HCR 12

STATE OF NEW HAMPSHIRE

In the year of Our Lord one thousand
nine hundred and seventy-nine

A RESOLUTION

relative to the dredging and widening of the
Piscataqua River.

Whereas, the U.S. Army Corp of Engineers determined dredging and widening of the Piscataqua River for the construction of a turning basin should be based on cost effectiveness; and

Whereas, safety measures taken into consideration of the siting of a turning basin causing increased costs have been ignored; and

Whereas, on an occasion when a vessel carrying gasoline, fuel oil or liquified petroleum gas to terminals along the river may be subject to an emergency action; and

Whereas, a liquified petroleum gas installation is situated on the Piscataqua River and should have a turning basin to safeguard the turning of vessels at the installation instead of continuing on the river to the turning basin constructed in a more economically feasible place as determined by the U.S. Army Corp of Engineers; and

Whereas, we believe a review of the placement of a turning basin is imperative; now, therefore, be it

Resolved by the House of Representatives, the Senate concurring:

That this body proposes to the Congress of the United States that it review the manner in which the U.S. Army Corp of Engineers made the decision to dredge and widen the Piscataqua River; and

That this body respectfully requests that the Congress cause the U.S. Army Corp of Engineers to make its determinations as to constructing a turning basin relative to safeguarding the lives of New Hampshire citizens rather than relative to economical considerations; and

That copies of this resolution be sent to the Speaker and Clerk of the United States House of Representatives, the President and the Secretary of the United States Senate, and to each member of the New Hampshire Congressional delegation.

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